

Date: July 8, 2024

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| To, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400001 BSE Scrip Code: 543451 | To, National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400051 NSE Scrip Symbol: AGSTRA |
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Ref: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sub: Revision of Credit Rating and Outlook on bank facilities

Dear Sir/Madam,

This is to inform that India Ratings and Research (Ind-Ra) has revised AGS Transact Technologies Limited's (AGS Transact) Long-Term Issuer Rating to 'IND A' from 'IND A+' while revising the Outlook to "Stable" from "Negative". The reason for the revision is on account of Group's stagnant revenue over the last few years and delay in collection of receivables. The agency has affirmed the short-term debt rating to 'IND A1'.

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, please find enclosed herewith press release dated July 8, 2024, issued by India Ratings and Research. You are requested to kindly take the same on record.

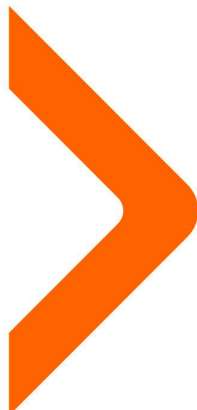
The said details shall also be available on the website of the Company i.e. www.agsindia.com.

This is for your information and records.

Thanking You,
Yours Sincerely,
For **AGS Transact Technologies Limited**

Sneha Kadam
Company Secretary & Compliance Officer
(Mem No: ACS31215)

Encl: a/a



AGS Transact Technologies Ltd.

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India Ratings Downgrades AGS Transact Technologies' Bank Facilities to 'IND A'; Outlook Stable

Jul 08, 2024 | Diversified Commercial Services

India Ratings and Research (Ind-Ra) has downgraded AGS Transact Technologies Limited's (AGS Transact) bank facilities to 'IND A' from 'IND A+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

| Instrument Type | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|----------------------------|------------------|-----------------|---------------|-------------------------------------|---------------------|--|
| Working capital bank loan* | - | - | - | INR1,938 (reduced from INR2,170) | IND A/Stable/IND A1 | Long-term rating downgraded; Short-term rating affirmed |
| Term loans | - | - | FY29 | INR5,673 (reduced from INR6,274) | IND A/Stable | Downgraded |

*Some of the limits are interchangeable between fund-based and non-fund-based facilities

Analytical Approach

Ind-Ra has fully consolidated AGS Transact's [subsidiaries](#) including Securevalue India Limited (SVIL; 'IND A'/Stable; 100%-owned by AGS Transact), together referred to as AGS Transact group hereafter, given the strong operational and strategic linkages among them.

Detailed Rationale of the Rating Action

The downgrade is due to AGS Transact group's stagnant revenue over the last few years, a weaker-than-Ind-Ra-expected operating performance during FY24 and stretch in receivable period with receivables above 180 days accounting for about 27% of the consolidated net receivables (billed plus unbilled). During FY24, the group's revenue declined 12% yoy to INR14.9 billion, leading to a moderation in adjusted EBITDA margins (reported EBITDA plus provision for doubtful debt and commitment fees/revenue) to 23.2% (FY23: 26%). During FY24, the group recognised a provision for doubtful debt and commitment fees of INR1.2 billion and INR0.3 billion, respectively, (FY23: INR0.4 billion and nil, respectively), leading to net loss and thereby reduction of equity.

However, the ratings remain supported by the group's strong market positioning across the payment value chain (automated teller machines (ATMs) management, digital payment solutions and cash management). Additionally, the group's long-term contracts to provide critical services to strong counterparties provide comfort around revenue visibility.

List of Key Rating Drivers

Strengths

- Presence across entire payment solutions value chain
- Strong technical capabilities

Weaknesses

- Subdued operating performance in FY24
- Elongated working capital cycle
- Customer concentration risk
- Digitisation could pose medium-term risk
- Moderation in credit metrics

Detailed Description of Key Rating Drivers

Presence across Entire Payment Solutions Value Chain: The AGS Transact group provides end-to-end payment solutions and technology for banking, fintech and financial sectors across the entire payment ecosystem, including cash and digital payments. The group derives services revenue from ATM outsourcing/management, cash management through SVIL, digital payment solutions and transaction switching services. Also, the group's hardware offerings for banking applications include ATM machines, bunch note acceptors, transaction terminals, note sorters and intelligent cash deposit machines, along with their annual maintenance and upgrades. The group also has a presence in the digital payment solution space and offers point of sale (POS) terminals, cash and card billing hardware and software, and digital signage software to retail merchants. It offers automation products to clients in consumer retail, colour and petroleum segments, along with the relevant annual maintenance and upgrade. Over the medium term, Ind-Ra expects the group to maintain its market share in the ATM segment while expanding its digital payment offerings.

Strong Technical Capabilities: The group's technical capabilities are supported by its strong, in-house research and development activities as well as manufacturing technology transfer from a leading global manufacturer of ATMs, which allows in-house manufacturing of ATMs. Furthermore, a tie-up with global partner enables the group to offer switch technology solutions, which are vital for the flow of online transactions from banks and fintech companies. Transaction switch software incorporates advanced fraud detection features and is widely used by banks and financial institutions worldwide.

Subdued Operating Performance in FY24: The consolidated revenue declined to INR14.7 billion in FY24 (FY23: INR16.7 billion; FY22: INR17.7 billion) and adjusted EBITDA to INR3.4 billion (INR4.3 billion), translating into lower margins of 23.2% (26.0%; 23.9%). The adjusted EBITDA is calculated as reported EBITDA of INR2.0 billion plus the provision for doubtful debt and commitment fees of INR1.2 billion and INR0.3 billion, respectively. The revenue declined in FY24 mainly because of scaling down of low-margin automation solutions business, decline in one-time revenue derived from upgrades during FY22 and FY23, and decline in cash management business, which, as per management, was undertaken to achieve route optimisation. While the group has scaled down its low-margin product business, the cost did not decline proportionately during FY24. This, along with decline in the revenue impacted the adjusted EBITDA margins. Ind-Ra believes the operational performance during FY25-FY26 will be supported by repricing of certain existing contracts and new orders, however, timely execution of orders and ramp-up of ATMs remains key monitorable.

Elongated Working Capital Cycle: In FY24, AGS Transact group's receivable (billed plus unbilled) days were at 181 (FY23: 197). The group's working capital intensity (net working capital requirement/ revenue) and working capital cycle (based on revenue) remained high at 33.3% in FY24 (FY23: 37.8%) and 121 days (132 days), respectively. It had provided for doubtful debt of INR1.2 billion in FY24, which led to the curtailment in debtor days and working capital cycle. Further, Ind-Ra believes recovery from more than six months aged receivables has remained low during the year with such receivables being stable at around 27% of receivables at FYE24. Any significant increase in aged receivables would impact the group's liquidity, which would remain a key rating monitorable for Ind-Ra.

Customer Concentration Risk: AGS Transact derives about 40% of its standalone revenue from its top three customers – ICICI Bank Limited, Axis Bank Limited (['IND AAA'/Stable](#)) and State Bank of India (['IND AAA'/Stable](#)). The loss of business through contract termination or reduced number of ATMs from any major customer could have a material impact on the group's revenue. However, Ind-Ra draws comfort from strong credit profile of its customers, established relationships and long-term nature of contracts.

Digitisation Could Pose Medium-Term Risk: In India, the total number of ATMs (excluding white label ATMs) grew merely at a CAGR of 1.6% to 218,815 over March 2019-March 2024. Also, increased digitisation and various government regulations targeted towards de-incentivising the usage/withdrawal of cash remain a key concern for the group's revenue growth.

However, the concern is partially mitigated by the agency's expectations of i) growing demand for deployment of cash recycler machines and a strong replacement demand for ATMs, as an ATM machine needs to be replaced within seven years, and ii) the need for upgradation of ATMs to fall in line with the latest technology and regulations would provide an incremental growth opportunity to the group. Furthermore, cash remained a dominant mode of payment for transactions in FY24 and the cash in circulation grew to INR35 trillion in FY24, up from the pre-demonetisation levels of INR17.4 trillion. Thus, the structural shift away from cash is not perceived to be an immediate threat. Additionally, government initiatives such as direct benefit transfer and Jan Dhan Yojna Scheme will support the volume of cash withdrawals through ATMs. Finally, AGS Transact group has a strong digital payments solution business, bolstered by its network of close to 248,000 POS terminals in the market. Also, incremental revenue opportunities from the integrated POS terminal deployment at fuel stations and issuance of prepaid cards will help the group further diversify its revenue mix.

Moderation in Credit Metrics: The group's gross debt (including lease liability and reverse factoring) remained high at INR11.2 billion at FYE24 (FYE23: INR12.3 billion). This, along with the decline in adjusted EBITDA led to deterioration in the interest coverage (adjusted EBITDA/gross interest expense) to 2.3x in FY24 (FY23: 3.0x) and net adjusted leverage (gross debt less unencumbered cash and cash equivalent/adjusted EBITDA) to 3.2x (2.8x). The group's return on capital employed deteriorated during FY24 due to subdued operating performance and provision for doubtful debtors and commitment fees. Any significant deterioration in profitability and credit metrics due to delay in order book execution or additional provision on aged receivables, would remain a key monitorable for Ind-Ra.

Liquidity

Adequate: The group's liquidity impends upon the timely fund raise of INR2 billion of share warrants (75% to be subscribed by the promoters) and proposed debt of about INR1 billion (to be divided into working capital limits and term debt), to be used to cover the repayment obligation of INR2.1 billion and INR1.8 billion in FY25 and FY26, respectively; and capex of around INR1.1 billion, to be incurred for deployment of new ATMs and ancillary equipment towards the execution of current order book. Furthermore, the liquidity is supported by unencumbered cash balance of INR0.3 billion at FYE24 (FYE23: INR0.1 billion) and sanctioned fund-based working capital limits of INR0.7 billion in SVIL. The operating cash flow (reported cash flow from operating activities less interest paid plus interest received less lease payouts) remained subdued at INR1.1 billion in FY24 (FY23: INR0.1 billion). Hence, timely collections and/or recovery from aged receivables (including those provided for) would support the group's liquidity and hence will remain a key rating monitorable.

Rating Sensitivities

Positive: Developments that could, individually or collectively, lead to a positive rating action include:

- a substantial recovery of aged receivables and the resultant shortening of the working capital cycle and strengthening of the group's liquidity position,
- strong revenue growth while maintaining stable EBITDA margins leading to the net leverage reducing below 2.5x, along with continued positive operating cash flow generation on a sustained basis.

Negative: Developments that could, individually or collectively, lead to a negative rating action include:

- a further elongation of the working capital cycle with increased ageing of receivables and/or a lower-than-expected issuance of share warrants leading to weakening of the group's liquidity position.
- a significant decline in the revenue with the EBITDA margins declining below 20% thereby impacting the operating cash flows and/ or net leverage exceeding 3.5x on a sustained basis.

Any Other Information

Standalone Profile: AGS Transact's standalone revenue was INR10.4 billion in FY24 (FY23: INR12.1 billion), with an adjusted EBITDA generation of INR2.5 billion (INR3.2 billion), translating into margins of 24.4% (26.6%). The company reported an interest coverage of 2.0x in FY24 (FY23: 2.7x) and a gross adjusted leverage of 3.4x (3.1x).

About the Company

AGS Transact is one of the leading integrated end-to-end cash/ATM management solutions providers. It is also engaged in providing cash management services through SVIL and is establishing presence in digital payment solutions wherein it provides merchant solutions (POS terminals), switching services and other value-added services. Furthermore, it provides various automation products and related maintenance/upgrade services.

Key Financials Indicators

| Particulars (Consolidated; INR billion) | FY24 | FY23 |
|---|------|------|
| Operating revenue | 14.7 | 16.7 |
| EBITDA* | 2.0 | 4.0 |
| Adjusted EBITDA | 3.4 | 4.3 |
| Adjusted EBITDA margins (%) | 23.2 | 26.0 |
| Net income | -0.8 | 0.4 |
| Gross interest expense | 1.5 | 1.4 |
| Net adjusted leverage (x) | 3.2 | 2.8 |
| Source: Ind-Ra; AGS Transact | | |

*Excluding other income

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | | |
|---------------------------|------------------------|------------------------|---------------------|---------------------------|------------------------|-------------------------|----------------------|
| | Rating Type | Rated Limits (million) | Rating | 26 September 2023 | 10 April 2023 | 31 March 2022 | 1 April 2021 |
| Issuer rating | Long-term | - | - | WD | IND A+/Negative | IND A+/Positive | IND A+/Stable |
| Term loans | Long-term | INR5,673 | INDA/Stable | - | IND A+/Negative | IND A+/Positive | IND A+/Stable |
| Working capital bank loan | Long-term/Short-term | INR1,938 | IND A/Stable/IND A1 | - | IND A+/Negative/IND A1 | IND A+/Positive/IND A1+ | IND A+/Stable/IND A1 |
| Commercial paper | Short-term | INR300 | - | - | WD | IND A1+ | IND A1 |

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of the Instruments

| Instrument Type | Complexity Indicator |
|-----------------|----------------------|
| Term loans | Low |

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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