

AGC/SD/SE/2021/2

January 07, 2021

Corporate Relationship Department Bombay Stock Exchange Limited P.J. Towers, Dalal Street, Fort, Mumbai – 400001	Corporate Relationship Department National Stock Exchange Limited Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai - 400051
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Subject: Intimation under Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations")- Credit Rating

Ref.: Scrip code BSE: 500463/NSE: AGCNET

Dear Sir/Madam,

Pursuant to Regulation 30(2) read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations") and SEBI Circular no. CIR/CFD/CMD/4/2015 dated September 9, 2015, we wish to inform you that CRISIL Ratings Limited ("CRISIL") has assigned ratings to the Bank facilities of the Company as under:

Sr.No.	Bank facility	Bank	Amount (Rs. in Crore)	Rating
1.	Cash Credit	YES Bank Limited	50.0	CRISIL BBB-/Stable
2.	Cash Credit	IDBI Bank Limited	35.0	CRISIL BBB-/Stable
3.	Cash Credit	Bank of India	12.0	CRISIL BBB-/Stable
4.	Letter of credit & Bank Guarantee	Bank of India	3.0	CRISIL A3
5.	Letter of credit & Bank Guarantee	YES Bank Limited	5.5	CRISIL A3
6.	Letter of credit & Bank Guarantee	IDBI Bank Limited	6.0	CRISIL A3
7.	Letter of credit & Bank Guarantee	Bank of India	17.0	CRISIL A3
	Total		128.5	

Copy of the Rating latter along with detailed Rating Rationale issued by CRISIL dated January 06, 2021 is also enclosed herewith.

This is for your kind information and record.

Thanking You,
For **AGC Networks Limited**

Aditya Goswami
Company Secretary & Compliance Officer

Encl.: As above

CONFIDENTIAL

RL/AGNSL/262787/BLR/0121/00963

January 06, 2021

Mr. Sanjeev Kumar Gupta

Vice President & Head Finance

AGC Networks Limited

Equinox Business Park, Tower 1,

Off B.K.C, LBS Marg,

Kurla West,

Mumbai City - 400070

Tel - 9930136534

Dear Mr. Sanjeev Kumar Gupta,

Re: Assignment of CRISIL Ratings to the bank facilities of AGC Networks Limited

All ratings assigned by CRISIL are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL on the ratings as on date.

Total Bank Loan Facilities Rated	Rs.128.5 Crore
Long Term Rating	CRISIL BBB-/Stable (Assigned)
Short Term Rating	CRISIL A3 (Assigned)

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL believes may have an impact on the ratings.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL will be necessary.

Should you require any clarifications, please feel free to get in touch with us.

With warm regards,

Yours sincerely,



Gautam Shahi
Director - CRISIL Ratings



Nivedita Shibu
Associate Director - CRISIL Ratings



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CRISIL Limited
Corporate Identity Number: L67120MH1987PLC042363

Annexure 1 - Bank-wise details of various facility classes (outstanding facilities)

S.No.	Bank Facility	Bank	Amount (Rs. in Crore)	Outstanding Rating
1	Cash Credit	YES Bank Limited	50.0	CRISIL BBB- /Stable
2	Cash Credit	IDBI Bank Limited	35.0	CRISIL BBB- /Stable
3	Cash Credit	Bank of India	12.0	CRISIL BBB- /Stable
4	Letter of credit & Bank Guarantee	Bank of India	3.0	CRISIL A3
5	Letter of credit & Bank Guarantee	YES Bank Limited	5.5	CRISIL A3
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	Total		128.5	

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CRISIL Limited
Corporate Identity Number: L67120MH1987PLC042363

Rating Rationale

January 06, 2021 | Mumbai

AGC Networks Limited

'CRISIL BBB- / Stable / CRISIL A3' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.128.5 Crore
Long Term Rating	CRISIL BBB-/Stable (Assigned)
Short Term Rating	CRISIL A3 (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its '**CRISIL BBB-/Stable**' rating on the long-term bank facilities of AGC Networks Limited (AGC).

The rating reflects AGC's established market position in the IT infrastructure solutions business especially post acquisition of Black Box Corporation, USA (BBX) in January 2019 as well as healthy and diversified revenue profile marked by diverse end user industries and established client base. The rating also factors in the large scale of operations and improved operating profitability of the company in fiscal 2020. These strengths are partially offset by leveraged albeit improving capital structure post acquisition of Black Box, high geographical concentration in revenue and exposure to global competition.

In fiscal 2020, AGC, at a consolidated level, posted revenues of Rs 4979 crore as against Rs 1849 crore in the previous fiscal led by full year contribution from BBX (100% subsidiary of AGC) acquired in January 2019. In fiscal 2020, majority (~76%) revenue was earned in USA while India contributed 7% and rest of the world 17%. The operating profitability also improved substantially to 7.1% in fiscal 2020 from 2.3% in previous fiscal post sustainable cost optimization initiatives undertaken by the company. Covid-19 had a marginal impact in first half with revenues down by 11% on year, the company is expected to post flattish revenues with recovery in the remainder of fiscal. Over medium term, the company is expected to post constant currency organic growth of ~5% while operating profitability is expected to gradually improve to 8-9%.

The acquisition of BBX was a leveraged buyout funded through 79% high yield debt and 21% through unsecured debt from promoters. This resulted in a high external debt of Rs 625 crore as on 31st March 2019. In fiscal 2020, the company did an off balance sheet non-recourse securitization of BBX's accounts receivables and coupled with the improved internal accruals, the company was able to cut down the external debt to Rs 274 crore in March 2020, the external debt has further reduced to Rs 263 crore as on September 2020. Over medium term, no major acquisition or capex is expected and the external debt levels are expected to reduce further gradually.

In November 2020, the board of directors of the company approved preferential allotment of shares to the promoters (Essar Group entities which hold 69% in the company presently) aggregating to Rs 225 crore, the amount will mainly be utilized to repay the unsecured loans of around Rs 200 crore earlier provided by promoters to finance BBX acquisition. The transaction is expected to be completed in the near term and will boost the net worth levels of the company too. The gearing levels are expected to fall to around 0.5 times by fiscal 2022.

Liquidity levels at consolidated levels remain healthy with cash & equivalents of Rs 432 crore as on September 2020 (with majority of the same kept in BBX, USA in proportion to business). The average utilization of fund based limits in India was high at ~95% for 12 months ended September 30, 2020, however the same is gradually reducing and stood at ~82% in November 2020. Most of the internal accruals in all subsidiaries including BBX can support cash requirements across all geographies including India. Annual cash accrual of over Rs 250-400 crore, expected over the medium term, will support the further debt repayments as well as the capex / acquisition plans of the company. Sustainance of improved financial profile, cash accrual and surplus liquidity will remain a key monitorable over medium term.

Analytical Approach

- For arriving at the ratings, CRISIL has combined the business and financial risk profiles of AGC Networks Limited (AGC) and its subsidiaries as they have significant managerial, operational, and financial linkages.
- Also for arriving at the ratings, CRISIL has amortized goodwill on acquisition of Black Box Corporation and COPC Holdings in Fiscal 2019 amounting to around Rs 135 crore over 5 years.
- Further CRISIL has treated, loan from promoters lent for financing of Black Box acquisition in January 2019 as 75% equity and 25% debt. This will be repaid from the proceeds of preferential issue to promoters within next few months. The board of directors has already approved preferential allotment to promoters in November 2020.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Healthy business risk profile, driven by established market position:**

AGC has an established market position in the IT infrastructure solutions business and has diversified end user industry presence among banking, financial services and insurance (BFSI), Healthcare, manufacturing, business services, retail, distributors etc verticals. The company has wide array of solutions including unified communications, customer experience, borderless networks, data centers, clouds and data security solutions. The company has marquee client base including Bank of America, Synnex Corporation, Intel Corporation, TJX Group of companies, Wells Fargo, Facebook etc. The client profile is fairly diversified with top 10 clients contributing ~28% to the revenues in fiscal 2020. The relationships with clients are also fairly longstanding with weighted average relationship with top 10 clients being over 20 years. The company also has collaborations with various global technology leaders. The company is expected to continue to benefit from its established market position, driven by a diversified range of service offerings and end user industries, alliances with leading software vendors, and longstanding customer relationships.

- **Large scale and improving operating profitability and cash flows**

AGC acquired Black Box Corporation Inc, USA (BBX) in January 2019. BBX was a loss making company at the time of acquisition. With this acquisition, AGC's revenues increased from Rs 716 crore in fiscal 2018 to Rs 4979 crore in fiscal 2020. Covid-19 too had only a marginal impact with company posting revenues of Rs 2212 crore in the first half of fiscal 2021 as against Rs 2487 crore in the similar period previous fiscal and PAT of Rs.46 crore in the first half of fiscal 2021 as against Rs.49 crore in the similar period previous fiscal. The management of AGC focussed on turning around of BBX post acquisition through various sustainable cost optimization initiatives such as employee right sizing, ratio centric approach, reduction in discretionary and redundant costs, common pool of resources etc. Resultantly the operating profitability improved to 7.1% in fiscal 2020 from 2% in fiscal 2019. The operating profitability is expected to improve further to ~9% over medium term with further business optimization exercises being implemented such as right-shoring of a part of activities, support and services to Global Delivery Centre in Bangalore of the company along with the SAP integration which will save a chunk of costs in SG&A and will further improve efficiencies. Due to asset light nature of service business, the capital expenditure is expected to be low. Also while the company may continue to look at small sized inorganic opportunities, large debt funded acquisitions are not expected over medium term. Any large debt funded capex/acquisition will be a key rating monitorable.

Weaknesses:

- **Leveraged albeit improving capital structure post acquisition of Black Box**

AGC acquired BBX in a leveraged buyout of ~Rs 850 crore which was funded 79% through high yield debt and 21% through unsecured loans from promoters. This increased the leverage levels at the company. Also the adjusted net worth has been impacted due to accumulated losses and intangible assets peculiar to IT industry. The company has been focussed on reduction in debt post acquisition and has reduced the external debt to Rs 274 crore as on March 2020 from Rs 625 crore as on March 2019. The company did off balance sheet non-recourse securitization of part of its accounts receivables at Black Box in December 2019 and used the proceeds to reduce the high yield debt. Also increased accruals due to improved operating profitability also supported the debt reduction.

Additionally the board of directors of the company has approved the preferential allotment to promoters amounting to Rs 225 crore. These will be mainly used to repay the unsecured loans provided by promoters at the time of acquisition and a part may go towards business activities and general corporate purpose. . With this infusion as well as improved accruals, the net worth is expected to increase to healthy levels over next couple of fiscals and gearing is expected to fall to 0.5 times. The company also plans to refinance the existing debt in BBX at lower rates to reduce the borrowing costs. While the company is part of Essar Group, no financial support is expected from the company to group. Any such support will remain a key monitorable. Also while the utilization of fund based limits at India level was relatively higher, the same is gradually coming down and is expected to come down significantly over next one year.

- **High geographical concentration in revenue and exposure to global competition:**

Similar to other players in the IT services industry, AGC, at consolidated level, draws bulk of its revenue from the US (76%) and Europe (9%) in fiscal 2020. This exposes the company to the risk of economic slowdown in these regions, as well as regulatory changes. Also with rapid evolution of the global IT-enabled services sector, competition is intensifying as more companies vie for a share of the outsourcing pie. The company has to compete with multiple players in most of the verticals. The operating profitability over a longer term is expected to remain constrained as increasing competition curbs the hike in realisations. Availability of low-cost skilled talent also is a key variable in this industry.

Liquidity: Adequate

AGC had cash & equivalents of Rs 432 crore as on September 2020 (with majority of the same kept in BBX, USA as in proportion of business). The average utilization of fund based limits in India was high at ~95% for 12 months ended September 30, 2020, however the same is gradually reducing and stood at ~82% in November 2020. Most of the internal accruals in all subsidiaries including BBX can support cash requirements across all geographies including India. Annual cash accrual of over Rs 250-400 crore, expected over the medium term, will support the further debt repayments as well as the capex / acquisition plans of the company.

Outlook: Stable

CRISIL believes AGC's credit risk profile will continue to benefit from the cost optimization measures undertaken by the company, its healthy business risk profile, healthy liquidity levels and improving financial risk profile.

Rating Sensitivity factors

Upward factors:

- Substantial and sustained growth in revenue and EBITDA margin of over 7-8% with increase in revenue share of the high-margin IT services business
- Improvement in capital structure and debt protection metrics backed by healthy accretion to reserve, progressive debt reduction or equity infusion

Downward factors:

- Slowdown in key markets leading to significant pressure on revenue and decline in EBITDA margin below 5%

- Large, debt-funded acquisition impacting the financial risk profile such as ratio of external debt to tangible net worth increases above 1.2 times

About the Company

AGC Networks Limited is a global information and communication (ICT) solutions provider and integrator in business communication systems, applications and services. The company provides server based converged networking platform for voice, data and video including IP telephony, multimedia call centre and Customer Relationship Management (CRM) solutions, unified communications and customer service. Further, to expand its global presence AGC completed the acquisition of Black Box Corporation (BBX) on January 07, 2019. AGC BBX provides technology solutions by partnering with leading technology vendors and provides need-based value-added services through its key technology alliance partners to provide 'End to End' solutions.

AGC was incorporated in 1986 by Tata Telecom Pvt. Ltd. to manufacture telecommunication equipment, was acquired by the USA based Avaya Inc in 2004. In August 2010, Essar group took over the company. Presently Essar group owns 69% stake in AGC. The company's scale reached close to Rs 5000 crore post acquisition of BBC and is present in multiple geographies such as Middle East, Africa, North America, Australia, New Zealand, Singapore, Philippines and UK servicing over 8000+ customers.

In the first six months ended September 30, 2020; the company posted revenues and profit after tax of Rs 2212 crore and Rs 46 crore respectively as against revenues of Rs 2487 crore and Rs 49 crore respectively in the similar period previous fiscal.

Key Financial Indicators (CRISIL adjusted consolidated financials):

Particulars	Unit	2020	2019
Operating income	Rs crore	4979	1849
Adjusted profit after tax (PAT)	Rs crore	13	(79)
Adjusted PAT margin	%	0.2	-4.3
Adjusted debt/adjusted networkth	Times	-	11.4
Adjusted interest coverage	Times	2.98	1.07

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Type of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	97	NA	CRISIL BBB-/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	31.5	NA	CRISIL A3

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
AGC Networks Australia Pty Ltd	Full	Subsidiary
AGC Networks Pte. Ltd.	Full	Subsidiary
AGC Networks Philippines, Inc	Full	Subsidiary
AGC Networks & Cyber Solutions Limited	Full	Subsidiary
AGCN Solutions Pte. Limited	Full	Subsidiary
AGC Networks LLC, Dubai	Full	Subsidiary
AGC Networks LLC, Abu Dhabi	Full	Subsidiary
AGC Networks New Zealand Limited	Full	Subsidiary
BBX Main Inc.	Full	Subsidiary
BBX Inc. and its subsidiaries (consolidated)	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	97.0	CRISIL BBB-/Stable		--		--		--		--	--
Non-Fund Based Facilities	ST	31.5	CRISIL A3		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities	Previous facilities
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Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	97	CRISIL BBB-/Stable	-	-	-
Letter of credit & Bank Guarantee	31.5	CRISIL A3	-	-	-
Total	128.5	-	Total	0	-

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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Last updated: April 2016

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