

Press Release

Agile Security Force Private Limited

March 27, 2020

Rating Assigned and Reaffirmed



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.40.00 crore (Enhanced from Rs.32 crore) |
| Long Term Rating | ACUITE BBB / Outlook: Stable |
| Short Term Rating | ACUITE A3+ |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the bank facilities of the Rs.32.00 crore bank facilities and assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.8.00 crore bank facilities of Agile Security Force Private Limited (ASFPL). The outlook is 'Stable'.

ASFPL, incorporated in 1995, is a Hyderabad-based ISO 9001:2008-certified company owned by Mr. V.R. K. Rao, Mr. V. Amarnath, Mrs. V. Meena Kumari and Mrs. V. Geeta. ASFPL provides housekeeping, manned guarding and manpower outsourcing services. The overall operations of the company are currently managed by Mr. V.R.K. Rao and Mr. V. Amarnath. The company has six branches and two training institutes situated in different cities of Andhra Pradesh.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of ASFPL to arrive at the ratings.

Key Rating Drivers

Strengths

- Long track record of operations and experienced management**

ASFPL was established in 1995 and has an operational track record of more than two decades. Long standing presence has helped the company earn a good reputation in the industry and long standing relations with its customers which in turn has helped the company to maintain steady revenue growth. Mr. V. R. K. Rao who is the Director of the company is an ex-IAF and has served in Indian Air Force as a Squadron Leader. Mr. V. Amarnath (Managing Director), son of Mr. V. R. K. Rao, has more than a decade of experience in the security field. Mr. Sreeramulu and Mr. G. Shyamsunder Reddy, who are the Vice Presidents of the company, have more than a decade of experience in security field. Mr. K. Ramachandra Rao (General Manager) is also an ex-army officer and having more than two decades of experience in the security field.

- Improvement in revenue albeit uneven operating margins**

The company's revenues have improved in FY2019 to Rs.189.75 crore compared to Rs.137.58 crore in FY2018. Increase in revenues is backed by new contracts acquired by the company in the security services and cleaning services. The company catered only in Andhra Pradesh and Telangana in the past year; however, it has acquired orders in Karnataka, Tamil Nadu and other states too. The Company for 11MFY2020 has reported revenue of around Rs.168 crore. The company reported about 56 percent of revenues from cleaning and manpower outsourcing and remaining from the security service.

The company has registered moderation in operating margins marked by 6.94 percent for FY2019 as against 7.07 percent for FY2018. This is majorly on account of increase in number of contractual employees from ~6000 to ~15000 resulting in increase in employee cost.

- Healthy financial risk profile**

The financial risk profile of the company is healthy marked by tangible net worth, debt protection metrics, coverage indicators and leverage ratios of the company. ASFPL's net worth stood healthy at Rs.32.17 crore as

on 31 March 2019 as against Rs.24.85 crore as on 31 March 2018 due to retention of profits in the business. Gearing (debt-equity) stood low at 0.41 times as on 31 March 2019 as against 0.37 times as on 31 March 2018. The total debt of Rs.13.13 crore as on 31 March 2019 comprises unsecured loan of Rs.0.56 crore, term loan of Rs.6.00 crore and working capital facility of Rs.6.57 crore. The interest coverage ratio (ICR) stood healthy at 6.30 times for FY2019 as against 7.48 times for FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood at 1.53 times as on 31 March 2019.

Acuite believes that the financial risk profile of the company will remain healthy marked by healthy net cash accruals and no major debt funded capex.

- **Diversified customer base**

The company has a customer base of more than 350 customers. The clientele base includes a mix of Government bodies, industrial, residential and commercial premises. Clientele include HDFC Bank Limited, State Bank of India, Andhra Pradesh Health Medical Housing & Infrastructure Development Corporation, Vijayawada Railways, Guntur Railways, TSM SIDC, HPCL, NIT Warangal, to name a few.

Weaknesses

- **High Payables and extension of funds to group company**

The company being into service industry, the major payables for the company is salary to its employees. The company has payables outstanding as on 31 March 2019 of Rs.31.49 crore (PY: Rs.18.60 crore). The company has also extended funds to group companies in the form of loans and advances worth Rs.18.76 crore as on 31 March 2020. The adjusted net worth of the company stood at Rs.13.40 crore as on 31 March 2019 as against Rs.11.34 crore in the previous year. The adjusted debt equity stood comfortable at 0.98 times as on 31 March, 2019 as against 0.82 times as on 31 March, 2018.

- **Presence in highly fragmented and competitive security service industry**

The private security services market is dominated by large multinational and Indian players on one end of the market and a fairly fragmented, unorganised segment on the other. The key service offerings for private security players are manned guarding and cash services and allied services such as electronic security services. The Indian security services industry has grown rapidly in the last decade, given the continuing threat perception from crime and terrorism; demand for security in new infrastructure projects such as airports, roads and telecom towers; emergence of modern retail and growing need for security for movement of cash within the banking system. High competition also leads to employee poaching and high attrition rate.

Rating Sensitivity

- Substantial improvement in scale of operation while maintaining profitability margins over the medium term
- Unwinding of exposure in form of unsecured loans to Agile Entertainment Private Limited.

Material Covenants

None

Liquidity Position: Adequate

Liquidity of ASEPL is adequate marked by comfortable cash accruals of Rs.8.50 crore against repayment obligations of Rs.0.94 crore for FY2019. Its expected cash accruals are in the range of Rs.9.92 crore to 12.36 crore over the medium term. The current ratio of the company stood at 1.05 times as on 31st March, 2019. It has unencumbered cash balances of Rs.1.08 crore. Working capital cycle remains utilized at around 92 percent for the last six months ending December, 2019. Acuite believes that the liquidity profile continues to be adequate marked by adequate accruals with lower repayment obligations and healthy financial risk profile.

Outlook: Stable

Acuite believes that ASFPL will maintain a 'Stable' business risk profile over the medium term on the back its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company maintains strong growth in revenues and profit margins while attaining a comfortable capital structure. Conversely, the outlook may be revised to 'Negative' in case the company undertakes a large, debt-funded, capital expenditure, leading to deterioration in its capital structure or deterioration in working cycle management thereby impacting liquidity profile of the company.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 189.75 | 137.58 |
| PAT | Rs. Cr. | 7.32 | 5.01 |
| PAT Margin | (%) | 3.86 | 3.64 |
| Total Debt/Tangible Net Worth | Times | 0.41 | 0.37 |
| PBDIT/Interest | Times | 6.30 | 7.48 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|------------|---------------------------------|------------|------------------|--------------------------------|
| 07-01-2019 | Term Loan | Long Term | 0.54 | ACUITE BBB (Withdrawn) |
| | Bank Guarantee | Short Term | 25.00 | ACUITE A3+ (Reaffirmed) |
| | Secured Overdraft | Long Term | 7.00 | ACUITE BBB/Stable (Reaffirmed) |
| 06-06-2018 | Term Loan | Long Term | 0.54 | ACUITE BBB/Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 20.00 | ACUITE A3+ (Reaffirmed) |
| | Proposed Secured Overdraft | Long Term | 4.00 | ACUITE BBB/Stable (Reaffirmed) |
| | Proposed Short Term Loan | Short Term | 0.37 | ACUITE A3+ (Assigned) |
| 15-11-2017 | Term Loan | Long Term | 2.24 | ACUITE BBB (Indicative) |
| | Bank Guarantee | Short Term | 6.50 | ACUITE A3+ (Indicative) |
| | Proposed Secured Overdraft | Long Term | 3.00 | ACUITE BBB (Indicative) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|--------------------------------|
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 7.00 | ACUITE BBB/Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A3+ (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 8.00 | ACUITE BBB/Stable (Assigned) |

Contacts

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About Acuite Ratings & Research:

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