

Date: April 11, 2023

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

Dear Sir/Madam,

This is to inform that India Ratings and Research (Ind-Ra) has affirmed AGS Transact Technologies Limited's (AGS Transact) Long-Term Issuer Rating at 'IND A+' while revising the Outlook to Negative from Positive. The agency has downgraded the short-term debt rating to 'IND A1' from 'IND A1+'.

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, please find enclosed herewith press release dated April 10, 2023, issued by India Ratings and Research. You are requested to kindly take the same on record.

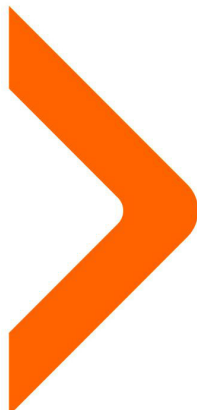
The said details shall also be available on the website of the Company i.e. www.agsindia.com.

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.

www.agsindia.com

REGISTERED OFFICE

601 - 602, B-Wing, Trade World,
Kamala City, Senapati Bapat Marg,
Lower Parel (W), Mumbai - 400 013

Phone: +91-22-6781 2000

Fax: +91-22-2493 5384

CIN-L72200MH2002PLC138213

CORPORATE OFFICE

1401-A & 1402,
One International Centre,
Tower-3, 14th Floor, S.B. Marg,
Prabhadevi (W), Mumbai - 400 013
Phone: +91-22-7181 8181

India Ratings Revises AGS Transact Technologies' Outlook to Negative; Affirms 'IND A+'; Withdraws CP Rating

Apr 10, 2023 | Diversified Commercial Services

India Ratings and Research (Ind-Ra) has revised the Outlook on AGS Transact Technologies Limited (AGS Transact) to Negative from Positive while affirming its Long-Term Issuer Rating at 'IND A+'. The instrument-wise rating actions are follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Working capital bank loan *	-	-	-	INR2,170 (reduced from INR3,310)	IND A+/ Negative/ IND A1	Outlook revised to Negative from Positive; Long-term affirmed; Short-term downgraded
Term loans	-	-	FY29	INR6,274 (increased from INR5,276)	IND A+/ Negative	Outlook revised to Negative from Positive; Affirmed
Commercial paper (CP)^	-	-	0-365 days	INR300	WD	Withdrawn

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

^ Ind-Ra has withdrawn the AGS Transact's CP rating on issuer's request with a mail confirmation that no debt had been availed against the same.

Analytical Approach: Ind-Ra has taken a consolidated view of AGS Transact and its subsidiaries including Securevalue India Limited (SVIL; debt rated at 'IND A+'/Stable; 100% owned by AGS Transact), together referred to as AGS Transact group, given the strong operational and strategic linkages among them.

The Negative Outlook and the downgrade of the short-term bank loan rating factor in the consolidated elongated working capital cycle, with a sizeable portion of receivables that are more than six months old, and a stagnant revenue profile. The affirmation continues to reflect the group's strong market positioning across the payment value chain (automated teller machines (ATMs) management, digital payment solutions and cash management) and comfortable credit metrics.

Additionally, the company's long-term contracts to provide critical services to strong counterparties provide comfort around revenue visibility. Furthermore, Ind-Ra believes regulatory tailwinds in the payment solutions business will provide additional avenues for revenue growth.

Key Rating Drivers

Stagnant Revenue: AGS Transact group's consolidated revenue remained stable at INR17.7 billion in FY22 (FY21: INR17.6 billion), with a reduced EBITDA generation of INR4.1 billion (INR4.4 billion), translating into margins of 23.2% (24.9%). The revenue from the digital payment solutions business, AMC services and upgrades business and cash management business grew 25.0% yoy, 32.2% yoy and 18.9% yoy, respectively, in FY22. However, the same was largely offset by a fall of 10.4% yoy and 18.6% yoy in the revenue from the ATM managed services business and product sale business, respectively. The subdued performance of the ATM managed services and product sales business continued in 9MFY23, leading to the consolidated revenue falling 9.2% yoy (9MFY23: INR12.5 billion, 9MFY22: INR13.7 billion). In 9MFY23, the EBITDA margin improved marginally yoy to 25.9% (9MFY22: 24.4%), driven by an increased contribution from the services business and the cost saving measures undertaken by the company. Ind-Ra expects AGS Transact group's new contract win for more than 8,000 ATMs, deployment of cash recycler machines, cassette swap implementation and regulatory tailwinds towards the expansion of digital payment solutions to support revenue growth over the medium term. However, the impact of slower growth in the transaction per ATM amid macro-economic uncertainties and the growing quantum of digital transactions on the consolidated revenue and profitability will continue to be a key rating monitorable.

Elongated Working Capital Cycle: In FY22, the group's working capital cycle remained extended with the receivable (billed and unbilled) and inventory days of 188 (FY21: 168) and 48 (49), respectively. Moreover, the ageing of the debtors had been increasing with around 31% of receivables being more than six months old at FYE22. In FY22, the group's working capital intensity (net working capital requirement divided by revenue) and its working capital cycle remained largely constant at 26.5% (FY21: 25.8%) and 99 days (99 days), respectively; however, this was achieved primarily by elongating the trade payable days to 137 (118). In 1HFY23, the working capital position deteriorated further with the receivable days increasing to 202 (on trailing 12 months (TTM) basis) and the payable days reducing to 125. However, Ind-Ra takes comfort from the strong credit profile of the debtors, which include banks with long payment track records. The management expects a substantial recovery from the aged receivables and regulatory assets over the next six-to-eight months leading to an improved working capital cycle, and this remains a key monitorable for Ind-Ra.

Liquidity Indicator - Adequate: The group's liquidity position impends upon its elongated working capital cycle and marginal revenue growth. **AGS Transact** group had raised funding through an external commercial borrowing of INR1.65 billion and term loans of INR1.0 billion during 9MFY23 to fund the capital expenditure incurred towards the deployment of cash recycling machines, point-of-sale (POS) terminals and vehicles and therefore, the capital expenditure is likely to have a limited impact on the group's liquidity. Ind-Ra expects the cashflows to be impacted by the payment towards current liabilities, including government dues, and increased finance cost owing to the increased use of working capital term debt, in place of fund-based working capital limits, to fund the working capital requirement. However, the liquidity risk is mitigated by the consistent operating profitability and the availability of working capital limits with an average peak fund-based limit utilisation of 54% for the 12 months ended January 2023. Any further stretching of the working capital cycle and its impact on cash flow is a key rating monitorable.

Comfortable Credit Metrics: With the repayment of non-convertible debentures of INR5.5 billion during FY22, the interest coverage ratio improved to 3.08x in 9MFY23 from 1.64x in FY22. The net leverage (gross debt less unencumbered cash and cash equivalent/EBITDA) remained comfortable at 2.68x at end-1HFY23 (on a TTM basis; FY22: 2.61x). The group's return on capital employed (RoCE) declined to 8.4% in FY22 (FY21: 9.3%; FY20: 13.7%) due to high average debt levels (including the non-convertible debentures availed to facilitate share buyback from private equity investors). However, over FY23-FY25, Ind-Ra expects the RoCE to improve to double-digits, backed by a reduction in the debt and consistent profitability, helped by the company's presence across the payment solutions value chain and its strong technical capabilities.

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 company 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 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 Diebold Nixdorf, a leading global manufacturer of ATMs, which allows for in-house manufacturing of ATMs. Furthermore, a tie-up with ACI Worldwide Inc. enables the group to offer switch technology solutions, which are vital for the flow of online transactions from banks and fintech companies. ACI Worldwide is a leading global software company in the electronic payments space; its transaction switch software incorporates advanced fraud detection features and is widely used by banks and financial institutions worldwide.

Digitisation Could Pose Medium-Term Risk: In India, the total number of ATMs (excluding white label ATMs) grew merely at a CAGR of 1.3% over March 2016-March 2022 to 215,061. 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 the 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 FY22 and the cash in circulation grew to INR31 trillion in FY22, up from the pre-demonetisation levels of INR17.4 trillion; thus, the structural shift away from cash is not 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 245,000 POS terminals in the market. Also, incremental revenue opportunities from the integrated POS deployment at fuel stations will help the group further diversify its revenue mix.

Customer Concentration Risk: AGS Transact derives about 45% 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 any major customer or a decision by any one of them to reduce the number of ATMs would impact the company. However, Ind-Ra draws comfort from strong credit profile of its customers, established relationship with them and long-term nature of contracts.

Standalone Profile: AGS Transact's standalone revenue was INR13.2 billion in FY22 (FY21: INR13.7 billion), with an EBITDA generation of INR3.2 billion (INR3.8 billion), translating into margins of 24.4% (27.5%). The credit metrics were comfortable with an interest coverage of 2.71x in 9MFY23 (FY22: 1.39x; FY21: 3.32x) and a net leverage of 2.91x in FY22 (FY21: 2.28x).

Rating Sensitivities

Outlook Revision to Stable: Developments that could, individually or collectively, lead to a positive rating action include:

- a substantial recovery on the aged receivables and thereby shortening the working capital cycle and strengthening of the company's liquidity position
- strong revenue growth while maintaining stable EBITDA margins and continued positive FCF generation.

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

- an elongation of working capital cycle with increased ageing of receivables and thereby, weakening the company's liquidity position
- a significant decline in the revenue with EBITDA margins declining below 20% and negative FCF

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AGS Transact, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

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 its wholly owned subsidiary, SVIL and is establishing presence in digital payment solutions wherein it provides merchant solutions (POS), switching services and other value-added services. Furthermore, it also provides various automation products and related maintenance/ upgrade services in banking, retail, petroleum and colour segment.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR billion)	9MFY23	FY22	FY21
Operating revenue	12.5	17.7	17.6
EBITDA	3.2	4.1	4.4
Net income	0.5	-0.8	0.5
Gross interest expense	1.0	2.5	1.3
Net leverage (x)	NA	2.6	2.3
Source: AGS, Ind-Ra			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Out		
	Rating Type	Rated Limits (billion)	Rating	31 March 2022	1 April 2021	17 Mar 2020
Issuer rating	Long-term	-	IND A+/Negative	IND A+/Positive	IND A+/Stable	IND A/St

Term loans	Long-term	INR6,274	IND A+/Negative	IND A+/Positive	IND A+/Stable	IND A/St
Working capital bank loan	Long-term/Short-term	INR2,170	IND A+/Negative/IND A1	IND A+/Positive/IND A1+	IND A+/Stable/IND A1	IND A/Stable/A1
CP	Short-term	INR300	WD	IND A1+	IND A1	IND A

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity
Term loans	Low
Working capital bank loan	Low
CP	Low

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

Contact

Primary Analyst

Divyanka Bhutada

Senior Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Pratik Mundhada

Associate Director

+91 22 40001724

Chairperson

Abhishek Bhattacharya

Senior Director and Head Large Corporates

+91 22 40001786

Media Relation

Ankur Dahiya

Senior Manager – Corporate Communication

+91 22 40356121

APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

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