

December 10, 2021 <sup>Revised</sup>

## A. P. Securitas Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2 assigned

### Summary of rating action

| Instrument*  | Current Rated Amount<br>(Rs. crore) | Rating Action                        |
|--|-------------------------------------|--------------------------------------|
| Long term Fund based– Cash Credit                    | 39.00                               | [ICRA]BBB+(Stable) assigned          |
| Long term Fund based – Term Loan                     | 13.00                               | [ICRA]BBB+(Stable) assigned          |
| Long term/Short term Non-Fund based – Bank Guarantee | 18.00                               | [ICRA]BBB+(Stable)/[ICRA]A2 assigned |
| Short term Fund based – Bill Discounting             | 15.00                               | [ICRA]A2 assigned                    |
| <b>Total</b>   | <b>85.00</b>                        |                                      |

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has taken a consolidated view on AP Securitas Private Limited (APSPL) and its Group subsidiaries, while assigning the credit ratings, given the common management and significant operational as well as financial linkages among the entities. The assigned ratings factor in APSPL's established position in security manpower industry with a strong and reputed client base, which lends better revenue visibility and high contract renewals. The ratings note the company's diversified geographical footprint across India, moderate customer concentration and healthy financial risk profile owing to moderate gearing and healthy coverage metrics. ICRA also considers APSPL's initiatives to foray into other lines of business such as integrated facility management, gas metering and surveillance systems, which augurs well in terms of revenue diversification.

The ratings are, however, constrained by the high working capital-intensive nature of operations owing to high debtor days. Further, as prevalent in the industry, the company has limited pricing flexibility owing to stiff competition from organised as well as unorganised players due to the fragmented nature of private security industry. Since, non-security business segments are at a smaller scale and would need funding for their expansion, the funding mix and impact on the credit profile will be a key rating factor.

The Stable outlook on the assigned ratings considers the company's leading market position in the private security industry with healthy contract renewals and new customer additions. The outlook also takes comfort from the experienced promoters.

### Key rating drivers and their description

#### Credit strengths

**Established player in security services industry, highly experienced promoters** – APSPL is one of the leading private security companies in India with a consolidated workforce strength of ~28,000 personnel. The company has a well-established brand in the private security business with 133+ branches spread across 22+ states. At a consolidated level, around 85-90% of the revenues are derived from security business and the remaining from facility management, gas metering and surveillance systems. Mr. Anil Puri, its founder, has been a pioneer in security and cash management business with strong experience of 30 years in the industry. The company is managed by a professional and experienced management.

**Reputed clientele with modest customer and geographical concentration risk** – The company enjoys strong long-term relationships with reputed clients including banks, government institutions, public sector undertakings (PSUs), large private corporations, out of which banks contribute about 30-40% of the total revenues. APSPL has moderate customer concentration

risk with the top 10 customers forming around 23% of its revenues in FY2021. It has a diversified geographical presence across the country with stronger foothold in the northern areas such as Haryana, Delhi and Uttar Pradesh which contribute around 59% of the total billings in FY2021. In the recent years, the company also gained market share in Madhya Pradesh, Karnataka and Punjab owing to its organic and inorganic expansion strategies.

**Good revenue visibility with diversity due to established client relationships and high renewal rates** – APSPL has healthy revenue visibility with high contract renewals from its established clients and increased focus on acquisition of new business from private corporates and participation in tenders floated by the Government institutions. As a result, despite the Covid-19 pandemic in FY2021, the company managed to sustain its revenues in FY2021. However, it lost some business in facility management due to closure of offices for private corporates, multiplexes and malls during the lockdown. The same is expected to revive with opening of establishments. In H1 FY2022, the company has generated revenues of Rs. 220 crore on a provisional basis.

**Moderate gearing and healthy credit metrics** – APSPL reported a healthy five-year CAGR of 18-19% during FY2017-FY2021. Moderate growth in cash accruals and limited addition resulted in a moderate gearing of 0.9-1.0 time as on March 31, 2021. Moreover, low long-term repayments resulted in healthy interest coverage and debt service coverage of 4.8 times and 3.3 times, respectively, in FY2021.

## Credit challenges

**Working capital-intensive nature of operations** – The company has a moderately high working capital intensity of 22%-24% over FY2020 and FY2021 mainly owing to high debtor days of 88 days. It requires significant performance guarantees to bid for the tenders from corporations, PSU, Government institutions, which increases the non-fund based working capital requirements and needs regular limit enhancements for the same.

**Restricted pricing flexibility owing to fragmented and competitive nature of the industry** – The private security industry is highly fragmented with many unorganised players and a few organised players. The stiff competition and lack of adequate differentiation in private security industry limits the company's pricing ability as reflected in the modest margins. However, with its well-established reputation in private security industry, APSPL is well placed to consistently get new business from the existing clients as well as acquire new clients.

**Expansion plans in non-security business segments and their funding impact remains to be seen** – Apart from the security business, the Group derives around 10-15% of its revenues from other business segments including facility management, gas metering and surveillance systems. Focus on the non-security services would diversify its portfolio, open new avenues for revenue growth and support its profitability, as these segments command better margins compared to the traditional security manpower business. Since these segments are at smaller scale and require funding for expansion either through organic or inorganic means, the funding mix could have an impact on the company's credit profile and will be a key rating factor.

## Liquidity position: Adequate

APSPL's liquidity is adequate supported by cash balances and liquid investments of Rs. 7.8 crore, unutilised WC limits of Rs. 27 crore as on September 30, 2021 and growing cash flow from operations on consolidated basis. The company has modest debt repayments and moderate capex requirements. However, the working capital requirement would increase with expansion in scale of operations. While utilisation for working capital limits would typically peak around mid-month depending on the payment cycles, ICRA takes comfort from the promoters' track record of supporting the company through unsecured loans.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if there is substantial growth in earnings while maintaining operating margins and liquidity. Specific credit metrics that could lead to an upgrade include TD/OPBITDA less than 2 times on a sustained basis.

**Negative factors** – Negative pressure on the ratings could arise in case of deterioration in working capital cycle impacting the company's liquidity position or high debt-funded capex. Specific credit metrics that could lead to a downgrade include interest coverage below 4 times on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a>  |
| Parent/Group Support            | Not Applicable   |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated financials of APSPL and its Group entities. The Group companies considered for consolidation are all enlisted in Annexure-2. |

## About the company

The APS Group is a leading provider of security services, facility management services, manpower outsourcing and other extended solutions. APSPL, the flagship company, was incorporated in 1986 and is among the leading security service providers with presence across 133 locations in India and workforce of 28,000 personnel. It is ISO 9001:2008 certified and has Private Security Agencies (Regulation) Act (PSARA) license from 22+ states. The company provides manned security and IT-based surveillance solutions to banks, PSUs, private companies, educational institutions, insurance companies, shopping malls, etc. The APS Group's founder and promoter, Mr. Anil Puri, is one of the pioneers in private security business. The Group is promoted by Mr. Anil Puri, who has strong experience in the sector and day-to-day operations are overseen by the Group CEO, Vikas Chadha, who has 30 years of experience in the industry.

## Key financial indicators (audited)

| APSPL Consolidated                                   | FY2020 | FY2021* |
|--|--------|---------|
| Operating Income (Rs. crore)                         | 557.4  | 585.2   |
| PAT (Rs. crore)                                      | 13.3   | 19.3    |
| OPBDIT/OI (%)  | 5.8%   | 5.9%    |
| PAT/OI (%)   | 2.4%   | 3.3%    |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.9    | 1.6     |
| Total Debt/OPBDIT (times)                            | 3.1    | 2.9     |
| Interest Coverage (times)                            | 3.7    | 5.1     |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation \*Provisional estimates

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

|   | Instrument       | Current Rating (FY2022) |                          |   |                                 | Chronology of Rating History for the past 3 years |                         |                         |
|---|------------------|-------------------------|--------------------------|---|---------------------------------|---|-------------------------|-------------------------|
|   |                  | Type                    | Amount Rated (Rs. crore) | Amount Outstanding as on Mar 31, 2021 (Rs. crore) | Date & Rating in                | Date & Rating in FY2021                           | Date & Rating in FY2020 | Date & Rating in FY2019 |
|   |                  |                         |                          |   |                                 |   |                         |                         |
|   |                  |                         |                          |   | Dec 10, 2021                    | -   | -                       | -                       |
| 1 | Cash Credit      | Long term               | 39.00                    | -   | [ICRA]BBB+ (Stable)             | -   | -                       | -                       |
| 2 | Term Loan        | Long term               | 13.00                    | 2.6   | [ICRA]BBB+ (Stable)             | -   | -                       | -                       |
| 3 | Bank Guarantee   | Long / Short term       | 18.00                    | -   | [ICRA]BBB+ (Stable) / [ICRA] A2 | -   | -                       | -                       |
| 4 | Bill Discounting | Short term              | 15.00                    | -   | [ICRA] A2                       | -   | -                       | -                       |

&= Under watch with developing implications

## Complexity level of the rated instruments

| Instrument   | Complexity Indicator |
|--|----------------------|
| Long term Fund based– Cash Credit                    | Simple               |
| Long term Fund based – Term Loan                     | Simple               |
| Long term/Short term Non-Fund based – Bank Guarantee | Very Simple          |
| Short term Fund based – Bill Discounting             | Very Simple          |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

| ISIN No/Banker Name | Instrument Name           | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook    |
|---------------------|---------------------------|------------------|-------------|----------|--------------------------|-------------------------------|
| Yes Bank            | Cash Credit               | NA               | 8.65%       | NA       | 34.0                     | [ICRA]BBB+(Stable)            |
| HDFC Bank           | Cash Credit               | NA               | 8.25%       | NA       | 5.0                      | [ICRA]BBB+(Stable)            |
| HDFC Bank           | Working Capital Term loan | Aug 2021         | 8.25%       | FY2027   | 13.0                     | [ICRA]BBB+(Stable)            |
| Yes Bank            | Bank Guarantee            | NA               | 1%          | NA       | 16.0                     | [ICRA]BBB+(Stable) / [ICRA]A2 |
| HDFC Bank           | Bank Guarantee            | NA               | 1%          | NA       | 2.0                      | [ICRA]BBB+(Stable) / [ICRA]A2 |
| Yes Bank            | Bill Discounting          | NA               | 8.25%       | NA       | 10.0                     | [ICRA]A2                      |
| HDFC Bank           | Bill Discounting          | NA               | 8.25%       | NA       | 5.0                      | [ICRA]A2                      |

Source: Company

#### Annexure-2: List of entities considered for consolidated analysis

| Company Name  | APSPL's Ownership      | Consolidation Approach |
|---|------------------------|------------------------|
| APSPL   | 100.00% (rated entity) | Full Consolidation     |
| SSMS  | 100%                   | Full Consolidation     |
| Proton Facility Solutions Private Limited             | 100%                   | Full Consolidation     |
| Genesis Gas Solutions Private limited                 | 55%                    | Full Consolidation     |
| Vijayant Facility Management Services Private Limited | 51%                    | Full Consolidation     |

Source: APSPL annual report FY2020

Note: ICRA has taken a consolidated view of the parent (APSPL), its subsidiaries while assigning the ratings.

## Corrigendum

**Rationale dated December 10, 2021 has been corrected with revision as detailed below:**

There are three corrections in KFI table for FY2021. The earlier PAT, PAT(%) and Interest Coverage were mentioned Rs. 19.0 crore, 3.2% and 4.8 times respectively and have been corrected as Rs. 19.3 crore, 3.3% and 5.1 times respectively.

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