Axiscades Technologies Limited

August 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	6.45 (Reduced from 24.45)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long-term / Short-term bank facilities	55.00 (Enhanced from 35.00)	CARE BBB+; Stable / CARE A2	Revised from CARE BBB; Stable / CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings of bank facilities of Axiscades Technologies Limited (ACTL) factors in significant improvement in revenues and PBILDT margin of the company during FY23, which is likely to sustain on account of the increased traction in its various business segments coupled with addition of several new customers during FY23. The company has been focussing on vertical diversification, customer diversification and embedded & digital first offerings under the new management. Simultaneously, with completion of acquisition of Mistral Solutions Private Limited (Mistral), ACTL would be able to synergise their offerings to existing and potential customers. CARE Ratings Limited (CARE Ratings) takes note of refinancing of the high-cost non-convertible debentures (NCDs), which were availed acquisition of Mistral, with a relatively low-cost borrowings and for slightly longer tenor.

The ratings continue to factor in the established operational track record of the company with marquee customers supported by fair diversification across sectors and geographies and experienced management.

Although these rating strengths are partially offset by moderation in the capital structure and debt coverage indicators due to pre-dominantly debt-funded acquisition of Mistal, they are still at satisfactory levels. The ratings are also constrained by moderate scale of operations in a highly fragmented and competitive industry in which the company operates, prospects of the company dependent upon the end-user industry's operational performance & investment climate, and susceptibility of profitability to foreign fluctuation risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the revenues beyond ₹1,000 crore while maintaining return on capital employed (ROCE) above 20% and interest coverage ratio above 5x.
- Overall gearing < 0.50x or total debt/PBIDT <1.50x.

Negative factors

- Decline in the revenues to below ₹650 crore, ROCE below 15% or total debt/PBDIT> 2.5x.

Analytical approach: Consolidated

ACTL has established subsidiaries in various geographies and acts as on-shore centres. The business model entails a high amount of integration of ACTL with its subsidiaries, and therefore, CARE Ratings has taken a consolidated approach to analyse the credit profile of ACTL.

The consolidated financials of ACTL considered for analysis comprise full-consolidation of subsidiaries mentioned in Annexure-6.

Outlook: Stable

Stable outlook is on account of the CARE Ratings' expectation on the improvement in the revenues of the company and sustainability of its existing PBIDT margins with addition of various new customers by the company in the past one year.

Detailed description of the key rating drivers:

Key strengths

Significant improvement in performance of the company

The company's performance, on a consolidated basis, has significantly improved in FY23 with 34.6% growth revenues from ₹610 crore in FY22 to ₹822 crore in FY23 and improvement in PBIDT of the company by 108% to ₹148.5 crore in FY23 from ₹71.27 crore in FY22, majorly driven by increased traction in the Automotive and Energy, Aerospace, Product Engineering

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Services (PES), and Product and Solutions (Defence) verticals. CARE Ratings expects that management's focus on consistent addition of new customers in diversified segments would de-risk ACTL from over-dependence on a single customer/vertical and will augur well for its long-term prospects.

Established operational track record supported by marquee customers
ACTL commenced operation from 1990 and has more than two decades of satisfactory track record of operation. Satisfactory execution of the awarded projects enabled the company to establish its credentials, in acquiring marquee customers over the years and repeat orders from them, which has been the core strength of the company. CARE Ratings notes that the company has acquired these customers over the years, who are expected to continue carrying out the business considering their established relationship with the company. Also, the company continues to acquire new clientele as witnessed in the past one year, which augurs well for the revenues and profitability prospects of the company.

Fair diversification across sectors and geographies
ACTL operates primarily across four sectors – aerospace, heavy engineering, automotive and industrial products, and renewable energy. With a share of 37%, heavy engineering is the largest part of ACTL's business followed by strategic tech solutions – 29%, aerospace – 28% and automotive and industrial products – 4%, while remaining in the renewable energy segment in FY23. In terms of geography as well, the revenues are well diversified across Europe, North America and Asia Pacific.

Key weaknesses

Moderation in capital structure
Adjusted to the OCDs from the promoters which are expected to be converted into equity when due, overall gearing stood moderated at 0.71x as on March 31, 2023 (0.21x as on March 31, 2022) on account of the additional debt raised by the company to fund Mistral's acquisition. Nevertheless, ACTL has refinanced the high-cost debt availed for acquisition for longer tenor at relatively lower cost during Q1FY24. CARE Ratings expects that company's cashflow generation would sufficiently cover the debt repayments of refinanced debt. At the same time, any more acquisitions carried out through availing of significant additional debt by the company may impact the credit profile of the company and is a key monitorable.

Intense competition in the industry
The company is a marginal player, though it has established customer base across diverse industry segments. The operating environment of the end-user industry has a significant impact on the company's performance. Hence, the company constantly works on reducing overdependence on few customers, which otherwise can cause considerable disruption to its revenues. However, such expansion into new business segments/industry involves significant investments. The company also faces intense competition from global capability centres (GCCs), large players with strong financial resources as well as from niche players operating in a specific segment.

Customer concentration risk
On a consolidated basis, around 26% of ACTL's revenues during FY23 were from its top two clients (35% during FY22). The improvement is due to addition of new customers, general improvement in the business scenario of its customers post lifting of air travel restrictions across various countries coupled with diversification of revenues by the company. Considering the customer concentration, the company's performance largely depends upon the performance of these clients.

Liquidity: Adequate
The company's liquidity is driven from sustained improvement in operating cashflows and refinancing of term loan for longer tenor translated into high debt-service coverage ratio (DSCR) levels. On a consolidated basis, ACTL's cash and bank balances stood at around ₹109.4 crore as on March 31, 2023, as against minimal principal repayment obligations during FY24. On a standalone basis, ACTL's cash and bank balances stood at ₹16.8 crore as on March 31, 2023.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Information Technology	Information Technology	IT - Services	IT Enabled Services

ACTL, incorporated in August 1990 as IT&T Enterprises Pvt Ltd (IEPL), initially commenced with BPO activities. Subsequently, over the years with various mergers and acquisitions, its present business profile comprises providing engineering design services and has been serving various verticals, viz., aerospace, defence, heavy engineering, automobile and industrial products. With acquisition of ACAT in FY17 and completion of Mistral acquisition in FY23, ACTL also entered into system integration activities focused on the defence sector involving hardware and in product design, development and deployment. ACTL has delivery centres in Noida, Hyderabad, Chennai and Bangalore. Apart from this, the company also has presence in America and Europe through its overseas subsidiaries.

Brief Financials - Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	610.31	821.62
PBILDT	71.27	148.53
PAT	22.68	-4.80
Overall gearing (times)	0.21	0.71
Interest coverage (times)	4.43	4.09

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available with CARE Ratings, at the time of the review'.

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

Any other information: Not applicable.

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	May 31, 2028	5.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	55.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT-Bank Guarantee	-	-	-	-	1.45	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	55.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3 (25-Jan-23) 2)CARE BBB / CARE A3 (RWD) (27-Dec-22) 3)CARE BBB / CARE A3 (CW with Developing Implications) (22-Aug-22)	1)CARE BBB / CARE A3 (CW with Developing Implications) (24-Jan-22)	1)CARE BBB / CARE A3 (CW with Developing Implications) (03-Nov-20)
2	Non-fund-based - LT-Bank Guarantee	LT	1.45	CARE BBB+; Stable	-	1)CARE BBB; Stable (25-Jan-23) 2)CARE BBB (RWD) (27-Dec-22) 3)CARE BBB (CW with Developing Implications) (22-Aug-22)	1)CARE BBB (CW with Developing Implications) (24-Jan-22)	1)CARE BBB (CW with Developing Implications) (03-Nov-20)
3	Fund-based - LT-Term Loan	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (25-Jan-23) 2)CARE BBB (RWD) (27-Dec-22) 3)CARE BBB (CW with Developing Implications) (22-Aug-22)	1)CARE BBB (CW with Developing Implications) (24-Jan-22)	1)CARE BBB (CW with Developing Implications) (03-Nov-20)
4	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	1)Withdrawn (22-Aug-22)	1)CARE A3 (CW with Developing Implications)	1)CARE A3 (CW with Developing Implications)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
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							(24-Jan-22)	(03-Nov-20)

*LT/ST: Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: Entities under consolidation by ACTL as on March 31, 2023

Sr. No.	Name of Company	% of Holding by ACTL
1.	AXISCADES, Inc.	100%
2.	AXISCADES UK Limited	100%
3.	AXISCADES Technology Canada Inc.	100%
4.	Axis Mechanical Engineering Design (Wuxi) Co., Ltd. ('Axis China')	100%
5.	AXISCADES GmbH	100%
6.	Cades Studec Technologies (India) Private Limited ('Studec')	76%
7.	AXISCADES Aerospace & Technologies Private Limited ('ACAT')	100%
8.	AXISCADES Aerospace Infrastructure Private Limited, subsidiary of ACAT	100%
9.	Enertec Controls Limited, subsidiary of ACAT ('Enertec')	100%
10.	Mistral Solutions Private Limited (Mistral)	100%
11.	Mistral Solutions Inc. (subsidiary of Mistral)	100% shares held by Mistral
12.	Mistral Solutions Pte Limited (subsidiary of Mistral)	100% shares held by Mistral
13.	Aero Electronics Private Limited (subsidiary of Mistral)	100% shares held by Mistral
14.	Mistral Technologies Private Limited (subsidiary of Mistral)	100% shares held by Mistral
15.	Explosoft Tech Solutions Private Limited	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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