Axiscades Technologies Limited (Revised)

April 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	6.00 (Reduced from 6.45)	CARE A-; Stable	Revised from CARE BBB+; Stable
Long-term / Short-term bank facilities	55.00	CARE A-; Stable / CARE A2+	Revised from CARE BBB+; Stable / CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to bank facilities of Axiscades Technologies Limited (ACET) factors in reduction in debt levels of the company following equity raise by the company through Qualified Institutional Placement (QIP) in the month of January 2024. Of net proceeds of ₹203 crore raised through QIP, the company has repaid its high-cost non-convertible debentures (NCD) to the extent of ₹105 crore in March 2024 and another ₹53 crore is expected be repaid by December 31, 2024. QIP raise along with expected improvement in free cash flow generation would also help the company in investing in new technologies which would drive the future growth of ACTL.

CARE Ratings Limited (CARE Ratings) continues to take note of sustained improvement in operational performance in FY23 and 9MFY24 on account of addition of several new clients in its portfolio. The company has been focussing on vertical diversification, customer diversification and embedded & digital first offerings under the new management. 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.

The above rating strengths are partially offset 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

- Improving revenues beyond ₹1,350 crore, networth of more than ₹800 crore, while maintaining total debt/profit before depreciation, interest and tax (PBDIT) of less than 0.75x

Negative factors

- Declining revenues below ₹800 crore or total debt/PBDIT of more than 1.5x.

Analytical approach: Consolidated.

ACTL has established subsidiaries in various geographies and acts as onshore 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 of stable credit profile with improvement in the revenues due to addition of various new customers and sustainable PBIDT margins.

Detailed description of the key rating drivers:

Key strengths

Improvement in capital structure following fund raise through QIP:
ACTL raised net proceeds of ₹203 crore through QIP issue in the month of January 2024 of which ₹158 crore is earmarked for debt repayment while balance ₹45 crore is for utilisation towards general corporate purpose. Of ₹158 crore towards debt

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

repayment, the company has already pre-repaid NCD to the tune of ₹105 crore while balance amount of ₹53 crore would be prepaid by December 31, 2024. With such debt prepayments, CARE Ratings estimates that ACTL's overall gearing would be less than 0.30x as on March 31, 2025, which would be significant improvement from 0.71x as on March 31, 2023. This apart, there will be improvement in debt coverage indicators also due to reduction in interest costs.

Stable operational performance in 9MFY24:
After witnessing significant jump in revenues in FY23 to ₹822 crore from ₹610 crore in FY22, the company is able to maintain the sales momentum in 9MFY24 wherein it recorded sales of ₹703 crore. This is majorly driven by increased traction in the Automotive and Energy, Aerospace, Product Engineering Services (PES), and Product and Solutions (Defence) verticals. CARE Ratings estimates that company's revenue would grow at a compounded annual growth rate (CAGR) of 15-18% in medium term while maintaining PBDIT margins in the range of 16%-18%. In CARE Ratings' opinion, 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. The company continues to acquire new clientele as witnessed in the past one year, which augurs well for its revenues and profitability prospects.

Fair diversification across sectors and geographies:
ACTL operates primarily across five sectors – aerospace, heavy engineering, automotive, energy and defense. For 9MFY24, with a share of 29%, Aerospace vertical is the largest part of ACTL's business followed by Defense – 26%, heavy engineering – 17% and while remaining in the products engineering, automotive and energy segments. In terms of geography as well, the revenues are well diversified across Europe, North America and Asia Pacific.

Key weaknesses

Intense competition in the industry:
The company is a reasonably large player and 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 in FY23 were from its top two clients (35% in 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 strengthened by raise of funds through QIP issue which has been used for debt prepayments and sustained improvement in operating cashflows, translating into high debt-service coverage ratio (DSCR) levels. On consolidated basis, ACTL had cash and cash equivalents of ₹275 crore as on January 31, 2024, though is expected to be lower on March 31, 2024, as certain amount would have been utilised for NCD prepayments.

Environment, social, and governance (ESG) risks

Environment: The company has adopted sustainable waste management practices and pollution-reduction measures. ACTL is training and building awareness to all stakeholders in the value chain to adhere and comply with all applicable environmental laws and regulations.
Social: ACTL prioritises employee well-being, diversity, and development to mitigate risks and maximise opportunities thereby leading to financial benefits, increased employee satisfaction, and enhanced client relationships.
Governance: The company ensures compliance with regulations, conduct employee training, and developed incident response plans.

Applicable criteria

Consolidation

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Service Sector Companies](#)
[Short Term Instruments](#)

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, 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, like aerospace, defence, heavy engineering, automobile and industrial products. With acquisition of several companies, ACTL also entered into system integration activities focused on the defence sector involving hardware and product design, development and deployment. ACTL has delivery centres in Hyderabad, Chennai, and Bengaluru. Apart from this, the company also has presence in America and Europe through its overseas subsidiaries.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total operating income	610.31	821.62	703.8
PBILDT	71.27	148.53	105.1
PAT	22.68	-4.80	24.42
Overall gearing (times)	0.21	0.71	NA
Interest coverage (times)	4.43	4.09	2.39

A: Audited UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'

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

Any other information: Not applicable.

Rating history for last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Please refer to 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	-	-	-	March 31, 2028	5.00	CARE A-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	55.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT-Bank Guarantee	-	-	-	-	1.00	CARE A-; 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 2024-2025	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
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	55.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (10-Aug-23)	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)
2	Non-fund-based - LT-Bank Guarantee	LT	1.00	CARE A-; Stable	-	1)CARE BBB+; Stable (10-Aug-23)	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)
3	Fund-based - LT-Term Loan	LT	5.00	CARE A-; Stable	-	1)CARE BBB+; Stable (10-Aug-23)	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)
4	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	-	1)Withdrawn (22-Aug-22)	1)CARE A3 (CW with Developing Implications)

								(24-Jan-22)

LT: Long term; ST: Short term; 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: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	AXISCADES, Inc.	Full	Subsidiary
2	AXISCADES UK Limited	Full	Subsidiary
3	AXISCADES Technology Canada Inc.	Full	Subsidiary
4	Axis Mechanical Engineering Design (Wuxi) Co., Ltd. ('Axis China')	Full	Subsidiary
5	AXISCADES GmbH	Full	Subsidiary
6	Cades Studec Technologies (India) Private Limited ('Studec')	Full	Subsidiary
7	AXISCADES Aerospace & Technologies Private Limited ('ACAT')	Full	Subsidiary
8	AXISCADES Aerospace Infrastructure Private Limited	Full	Subsidiary
9	Enertec Controls Limited	Full	Subsidiary
10	Mistral Solutions Private Limited (Mistral)	Full	Subsidiary
11	Mistral Solutions Inc.	Full	Subsidiary
12	Aero Electronics Private Limited	Proportionate	Associate company
13	Mistral Technologies Private Limited	Full	Subsidiary
14	Explosoft Tech Solutions Private Limited	Full	Subsidiary
15	Add Solutions GmbH	Full	Subsidiary
16	Epcogen Private Limited	Full	Subsidiary

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80-4662 5555 E-mail: karthik.raj@careedge.in Himanshu Jain Associate Director **CARE Ratings Limited** Phone: +91-80-4662 5528 E-mail: himanshu.jain@careedge.in Arpita Agarwal Rating Analyst **CARE Ratings Limited** E-mail: Arpita.Agrawal@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in