Aequs Private Limited
July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	26.05	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers
The rating assigned to bank facilities of Aequs Private Limited (APL) factors in company's diversified business operations in aerostructure components and plastic injection moulding which involves toys manufacturing and consumer durable goods. The rating also factors in the company's competitive position in aerospace segment wherein it has long-term association with reputed clientele resulting in continuous increased order inflows. The company is present in entire value chain of business, providing it competitive advantage over several peers.

Despite current challenges in toys and consumer durable segment, the company is working actively to improve capacity utilization in both segments. CARE Ratings Limited (CARE Ratings) positively takes note of a large order (herein referred to as Advanced Technology Product [ATP]) received from a reputed company under consumer durable division for which the company is undertaking capex funded using a mix of debt and Compulsory Convertible Preference Shares (CCPS) which is at near completion stage. Upon successful completion of the project and on back of continuous order inflow in aerospace business, CARE Ratings estimates company's revenue to grow at compounded annual growth rate (CAGR) of 45% in near to medium term. APL's ability to complete the ATP project within envisaged timelines and to generate the envisaged profitability will be key to its prospects.

CARE Ratings also takes note of consistent fund infusion from the promoters in the past to fund losses and support working capital requirement. In the past 12-18 months, company has also raised from marquee investors in the form of CCPS to fund the ongoing/ upcoming capex plans and to fund the losses in certain divisions. Company's ability to provide the exit to CCPS holders without leveraging or impacting liquidity would be key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors
- Growth in scale of operations beyond 30% with profit before depreciation, interest and tax (PBDIT) margins above 15% and total debt/PBDIT of less than 4x.

Negative factors
- Delaying ramp-up of ongoing ATP project or lower than envisaged profitability resulting in total debt/ PBDIT of more than 5x.

Analytical approach: Consolidated

CARE Ratings has adopted consolidated approach while analysing APL due to strong managerial, operational, and financial linkages between the entities. List of subsidiaries/ joint ventures (JVs) consolidated are mentioned in Annexure-6.

Outlook: Stable
CARE Ratings believes that APL will continue to sustain its performance aided by strong order book position in aerospace segment and new ATP order. Also, company will continue to benefit from resourcefulness of the promoter.

Detailed description of key rating drivers:

Key strengths
Strong promoter group with demonstrated ability to raise funds
The company derives financial flexibility from continued promoter's support. The founder, Chairman and CEO, Aravind Melligeri has decades of experience in aerospace segment and have been the co-founder of QuEST Global Engineering Private Limited, which is one of the largest engineering services companies globally. APL had received significant equity infusion over the years from its promoters to scale operations of the company. Additionally, due to its high growth prospects and presence of vertically integrated products solutions facilities, the company was able to raise external funding in form of CCPS amounting to ~₹586 crore from PE investors, which will be used by the company to fund growing scale of operations.

Diversified operations in business segments of aerospace, toys, and consumer durable goods
Over the last decade under leadership of Aravind Melligeri, APL has built a vertically integrated aerospace ecosystem which delivers end-to-end value streams. The company provides vertically integrated product solutions including precision machining, sheet metal fabrication, assembling, forging, and surface treatment in aerospace segment. Moreover, the company has also built

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

end-to-end manufacturing value stream in toys and consumer durable. APL has a diversified product portfolio across all its divisions and also operates units in France and USA in aerospace segment. CARE Ratings believes that such diversification and long-term relationship with customers would help the company in receiving continuous flow of orders.

Long-term agreements with reputed global customers

The company has established relationships with renowned customers in all three segment and has strong order book position with long-term agreements. APL caters to orders of major industry players, including Airbus, Wonderchef, and HASBRO, among others. The company has strong order book position for next three years in aerospace segment. Owing to APL' s expertise in manufacturing integrated product solutions, it has received order from a global consumer electronic manufacturing company which is expected to improve the company's revenue and profitability margins from FY26 onwards.

Improving scale and profitability margins

APL has been witnessing improvement in revenue from operations and PBDIT since FY22. The company's total operating income (TOI) improved from ₹552 crore in FY20 to ₹969 crore in FY24 backed by healthy order book position in aerospace segment. With increase revenues, the company earned PBDIT margins of 12.8% in FY24 as against 6.04% in FY23. With strong order book in aerospace and upcoming ATP project, CARE Ratings expects company's revenue to grow at CAGR of 45% while maintaining PBDIT margins in the range of 16-19% over near to medium term.

Key weaknesses

Debt-funded capex plans, however, at final stage of completion

The company is undertaking a large ATP which is being funded partially through bank debt and partially through CCPS funds. The company's ability to complete the project within envisaged timelines and to operate the plant at optimum levels will be key to its prospects.

Continuous net losses being earned in the past due to low-capacity utilisation in toys and consumer durable business

Though the company has diversified product portfolio in toys and consumer durable business, both divisions have been incurring losses in the past owing to low-capacity utilisation. Promoters have been infusing funds in the business to support company's operations. Nevertheless, such losses have been reducing and with strong order in hand in consumer durable segment, the division is expected to turn profitable and will contribute a significant proportion to the company's revenue from FY26 onwards.

Liquidity: Adequate

The company's liquidity is primarily driven by its demonstrated ability to raise funds and recovery in the aero segment. The company has started to generate cash profits which are expected to grow further on back of improved order book position. The average working capital utilisation of the company stood high at 85% in FY24. The company has liquidity excess of Rs. 200 crore as on March 31, 2024, on a consolidated basis.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Consolidation
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial manufacturing	Industrial products

In 2006-07, Aravind Melligeri entered manufacturing segment in aerospace ecosystem and started QuEST Global Manufacturing (QGM) in Bengaluru. In 2014, QGM was rebranded as "Aequs". APL is a diversified contract manufacturing company, operating manufacturing facilities in India, France, and the United States. The company provides vertically integrated product solutions for aerospace, toys & consumer durables industries. It specialises in precision machining for AeroSystems, Aerostructures, landing gear and engine components, forging, surface treatment, aerostructure assembly, testing and prototyping of components at its Belagavi unit. Apart from this, the company has also setup consumer durable and toy manufacturing clusters in Hubbali and Koppal.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	821.7	969.8
PBILDT	49.6	123.9
PAT	-108.7	-15.9
Overall gearing (times)	2.96	0.96
Interest coverage (times)	0.72	1.96

A: Audited; UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Infomerics has placed the rating of APL under Issuer Not Cooperating vide PR dated May 20, 2024, as the company did not cooperate in sharing the requisite information.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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-Cash credit	-	-	-	-	25.00	CARE BBB-; Stable
Fund-based - LT-Term loan	-	-	-	November 2024	1.05	CARE BBB-; Stable

Annexure-2: Rating history for 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-Term loan	LT	1.05	CARE BBB-; Stable	-	-	-	-
2	Fund-based - LT-Cash credit	LT	25.00	CARE BBB-; Stable	-	-	-	-

LT: Long term.

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

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

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Aerostructures Manufacturing India Private Limited	Full	Subsidiary
2	Aerostructures Assemblies India Private Limited	Full	Subsidiary
3	Aequs Consumer Products Private Limited	Full	Subsidiary
4	Aequs Engineered Plastics Private Limited	Full	Subsidiary
5	Aequs Toys Private Limited	Full	Subsidiary
6	Aerospace Manufacturing Holdings Private Limited	Full	Subsidiary
7	Aequs Force Consumer Products, Private Limited	Full	Subsidiary
8	Koppal Toys Molding COE Private Limited	Full	Subsidiary
9	Aequs Aerospace LLC, USA	Full	Subsidiary
10	Aequs Aerospace BV, Netherlands	Full	Subsidiary
11	Aequs Aero Machine Inc.	Full	Subsidiary
12	Aequs Aerospace France SAS	Full	Subsidiary
13	Aerospace Processing India Private Limited	Proportionate	Joint venture
14	Squad Forging India Private Limited	Proportionate	Joint venture

Note on complexity levels of 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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