Adage Automation Private Limited

October 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.00	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	13.00	CARE BBB; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	0.50	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Adage Automation Private Limited (AAPL) continue to derive strength from growing albeit moderate scale of operations, healthy profit margins, comfortable albeit moderation in the capital structure and debt coverage indicators. The ratings continue to derive strength from its experienced promoters, established track record of operations, reputed customer base with healthy order book position providing revenue visibility over the near to medium terms and authorized distributorship agreement with Siemens AG.

The above rating strengths, however, continue to be tempered due to working capital intensive nature of operations with elongation in working capital cycle, foreign exchange fluctuation risk and presence in competitive nature of operations. The ratings also tempered due to the debt funded capex execution risk along with diversion of funds through investments in the joint ventures placed in Middle East undertaken during FY25.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Increase in the scale of operations with total operating income exceeding Rs.250 crore on sustained basis
- Improvement in PBILDT margin exceeding 16% respectively on a sustained basis
- Sustenance of overall gearing below 0.80x and interest coverage above 4x levels

Negative Factors

- Decrease in the scale of operations with TOI reaching below Rs.100 crore on a sustained basis
- Decline in operating margins below 10% on sustained basis.
- Deterioration in capital structure with overall gearing exceeding unity level.
- Deterioration in the operating cycle with the collection period elongating beyond 150 days with utilization of fund based working capital limits reaching over 75% on a sustained basis
- Higher than envisaged investments in the joint venture / subsidiaries / group entities including extending corporate guarantees leading to deterioration in the credit metrics or liquidity position of the company on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The continuation of "Stable" outlook reflects CARE Ratings belief that AAPL will sustain its growth in scale of operations, profitability and sustainable credit profile over near to medium term on the back of healthy order book from reputed customers.

Detailed description of key rating drivers:

Key Strengths

Established track record of operations with extensive experience of promoters in gas analytics solutions: AAPL has an established track record of over two decades of operations in designing, manufacturing, installation, commissioning and maintenance of various types of gas analyzer systems, so as to monitor, analyze the amount and quality of gas emitted during their production activities. The overall operations of AAPL are looked after by Mr. Abhijit Chatterjee and Mr. Angshuman Paul, who possess an extensive experience of an average of over two decades in providing gas analytics solutions.

Reputed customer base with health order book position: Over the years of operations, AAPL has established long-term relationships with reputed customers engaged in varied industrial activities, viz, steel, cement, power, oil & gas, chemical and fertilizer industries etc. With continuous demand from the existing customers besides additions of new customers resulted in contribution of revenue from top 5 customers decreased from 51.15% in FY23 to 38.63% in FY24. Over the period, the company has developed strong relationships with its customers.

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

Further, as on September 30, 2024, AAPL's order book position stood healthy with unexecuted orders of Rs.217 crore from its existing as well as new customers and of which majority of order to be execute by March 2025. These orders comprised the ones for process analytical systems from various players across the core industries. Moreover, the company received repeat orders from these customers. This ensures healthy revenue visibility for the company in the near to medium terms.

Authorized distributorship agreement with Siemens AG: AAPL has an agreement as an authorized distributor of gas analyzers manufactured by Siemens AG, for the regions of Asia Pacific, Middle East and some parts of Africa. Gas analyzer is the main input material required to install a gas analyzer system by AAPL. With regards to this, Siemens AG has set up a lab-testing center for AAPL at its manufacturing facility in Goa, wherein the gas analyzers manufactured with the support of technical expertise and products from Siemens AG undergo quality testing. The company sells products under co-branded from Siemens.

Growing albeit moderate scale of operations: The scale of operations exhibited a consistent growth registering a CAGR of 35.13% over the last three years ended FY24. During FY24, the TOI grew by 30.78% to Rs.184.97 crore (vis-à-vis 142.03 crore in FY23). The safety awareness is rising across various end-user segments due to the increasing number of fatal accidents related to gas leakages and explosions. This leads to many worker's associations and regulatory authorities insisting on using sensor device components equipped with gas detectors and analyzers, which has led to increase in demand for Gas Analyser from existing as well as new customers. Additionally, AAPL secured larger orders for various types of gas analyser shelters and systems, which are high in value, which expanded their product range and boosted their operational scale. Further, during H1FY25, AAPL reported revenue of Rs. 113.38 crore. Nevertheless, the scale of operations continues to remain moderate. Given this, the tangible net-worth base also stood relatively small at Rs.60.08 crore as on March 31, 2024 (vis-à-vis Rs.44.58 crore as on March 31, 2023). Further, given the sizable order book position and the rising demand for gas analyzers, AAPL anticipates continuous growth in scale over the projected periods.

Consistently y-o-y improvement in the operating profit margins: The PBILDT margin remained moderate and the same has been consistently improved in past three years ended FY24. The PBILDT margin has marginally improved from 13.96% in FY23 to 14.17% in FY24 due to continuous increase in sale of high value critical products including gas analyzer shelters and systems which fetches higher margins with absence of notable competition in the segment. However, the PAT margin decreased slightly from 8.67% in FY23 to 8.45% in FY24 on account of increased interest and depreciation cost due to capex undertook by company. Going forward, the company expects the margins to remain healthy and improve further in the projected period on the back of increase in demand for shelters which carries better margins.

Comfortable capital structure and debt coverage indicators: The capital structure of AAPL stood comfortable marked by an overall gearing at 0.67x as on March 31, 2024 (vis-à-vis 0.33x as on March 31, 2023). However, the deterioration in the same was on account increased total debt by 176% on y-o-y basis to Rs. 39.95 crores in FY24 vis-à-vis Rs. 14.47 crores in FY23 on account of availment of the working capital term loan and unsecured loans from various banks / FI's for the purchase of office properties in Delhi and Kolkata. Additionally, the company also secured a new mortgage loan to acquire industrial land adjacent to its existing factory, facilitating the expansion required due to increased operational scale in the medium term. Further, the debt coverage indicators have deteriorated with total debt to GCA stood at 2.36x in FY24 (vis-a-vis 1.07x in FY23) and the interest coverage ratio has deteriorated from 9.34x in FY23 to 6.88x in FY24 due to increase in finance cost. Nevertheless, it continues to remain comfortable.
Furthermore, during FY25, the company has issued non-convertible debentures worth Rs.20 crore for the investment in the joint venture entities which are likely to impact the leverage and coverage indicators in the near to medium terms. Nevertheless, the same are likely to remain sustainable, owing to accretion of profits to reserves and gradual repayment of long-term debt.

Key weakness

Working capital intensive nature of operations: The operations of AAPL are working capital intensive marked by gross current asset period of 228 days in FY24 (vis-à-vis 192 days in FY23). The elongation in the same was primarily attributable due to majority of the funds being blocked in debtors and inventory levels. The company extends a credit period of over 80-90 days to its customers. Moreover, customers retain ~10% of the amount as retention money till the time of commissioning of the projects undertaken by its customers. Hence, the collection period has slightly elongated to 89 days in FY24 from 85 days in FY23. Additionally, the inventory period has elongated to 94 days FY24 from 82 days in FY23 due to the pending of the higher value orders at year end. Thus, the working capital cycle remained elongated to 127 days in FY24 from 105 days in FY23.

Foreign exchange fluctuation risk: AAPL is exposed to significant foreign exchange fluctuation risk, since 45-65% of the annual raw material requirements are met by way of imports, whereas exports comprise under 6% of the annual revenues.

However, the company undertakes hedging by way of a derivative limit worth Rs.0.50 crore from the bank. Nevertheless, the foreign exchange fluctuation risk continues to persist due to timing differences. The company has witnessed foreign currency fluctuation gain of Rs.0.55 crore in FY24 (vis-à-vis Rs. 0.83 crore in FY23).

Debt-funded capex plans: The company is expected to scale up its operations in the medium terms and hence outlined additional capex requirements through setting up the new factory premises. It has already purchased land at GIDC Varna and the same is funded by mortgage loan from bank. further, the company currently has 16 offices across India, with only the Goa and Mumbai offices being owned. Hence, the company has planned to purchase offices at Delhi and Kolkata in FY25 with total estimated cost of Rs.10 crore of which it has already acquired an office at Delhi for Rs.4.50 crore and is in process to purchase another at Kolkata by January 2025. The company has already availed finance through unsecured loans from various NBFCs of ~Rs.9 crore for the same while remaining is being funded through internal accruals.
Further, during FY25, AAPL has entered a 50:50 joint venture (JV) with The Kanoo Group (Kanoo) from Saudi Arabia and planned to set up new factories to manufacture gas analysers in Saudi Arabia and United Arab Emirates (UAE). The JV is in process to open new companies in Saudi Arabia as Adage Kanno Industrial Company (AKIC) and in UAE under the name of Adage Kanoo Analytical Industries (AKAI) with total investment of Rs.22.50 crore (Including SAR 5 million in Saudi Arebia and AED 5 million in UAE). AAPL has already invested ~Rs.56 lakh (SAR 2.5 lakh) as an initial investment for the same. Further, in the month of August 2024, AAPL has issued Non-Convertible Debentures (NCDs) of Rs. 20 crore which will be entirely utilized for JV investments. Hence, timely commercialization of the same without any cost overrun remains critical. Moreover, higher than envisaged investments in the joint venture leading to deterioration in the credit metrics or liquidity position of the company would remain key monitorable.

Competitive nature of operations: AAPL operates in the niche segment, however, it faces competition from multinational companies in the gas analytics solutions business. This is evidently reflected in the moderate profit margins and high collection period, since the company is compelled to offer its products at competitive rates to its customers.

Liquidity analysis: Adequate
The liquidity position of AAPL remained adequate marked by sufficient cushion in accrual against its debt repayment obligations vis-à-vis repayment obligations of ~Rs.12 crore for FY25 and ~Rs.10 crore for FY26. Its free cash and bank balance stood at Rs.7.50 crore as on March 31, 2024. Average maximum utilization of its fund based working capital limits remained low at 42% for 12 months period ending in June 2024. The net cash flow from operating activities stood negative at 3.68 crore in FY24 due to an increase in working capital requirements during the year. The current and quick ratio stood comfortable at 1.78x and 1.09x respectively as on March 31, 2024 (vis-à-vis 1.63x and 0.96x respectively as on March 31, 2023).

Applicable criteria:
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Incorporated in 2001 by Mr. Abhijit Chatterjee and Mr. Angshuman Paul, Adage Automation Private Limited (AAPL) is a specialized gas analytical company accredited by ISO 9001:2008, engaged in providing integrated engineering solutions in gas analytics, through manufacturing of Gas Emissions Monitoring systems and Gas Analytical Solutions which are applied by manufacturers engaged in steel, cement, power, oil & gas, chemical and fertilizer industries, so as to monitor & analyze the amount & quality of gas emitted during their production activities. The company's end-user segments are divided into CEMS (continuous emission monitoring system, required to report the pollution levels to the pollution control board, comprising ~60% of the annual revenues) and process business (cost control, efficient fuel consumption, safety, etc. comprising ~40% of the total revenues). AAPL's manufacturing facility is located at Verna, Goa with offices spread across various parts of India viz. Mumbai, Gujarat, Delhi, Bangalore, Kolkata, Chennai, Hyderabad, Jamshedpur and Vizag, whereas the overseas operations offices in Middle East are in Jubail and Abu Dhabi.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	142.02	184.97	113.38
PBILDT	19.82	26.21	NA
PAT	12.32	15.63	NA
Overall gearing (times)	0.32	0.67	NA
Interest coverage (times)	9.34	6.88	NA

A: Audited, UA- Unaudited, NA- Not available, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Nil

Any Other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure 4

Lender details: Annexure-5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	13.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT-Bank Guarantee		-	-	-	13.00	CARE BBB; Stable
Non-fund-based - ST-Forward Contract		-	-	-	0.50	CARE A3

Annexure-2: Rating History of 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-Cash Credit	LT/ST	13.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (06-Oct-23)	1)CARE BBB; Stable / CARE A3 (05-Jan-23)	1)CARE BBB-; Stable / CARE A3 (03-Feb-22)
2	Non-fund-based - LT-Bank Guarantee	LT	13.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Oct-23)	1)CARE BBB; Stable (05-Jan-23)	1)CARE BBB-; Stable (03-Feb-22)
3	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A3	-	1)CARE A3 (06-Oct-23)	1)CARE A3 (05-Jan-23)	1)CARE A3 (03-Feb-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple
3	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company

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

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