Ace Designers Limited

January 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	161.08 (Enhanced from 49.20)	CARE AA-; Stable	Reaffirmed
Long-term/short-term bank facilities	103.75 (Reduced from 157.80)	CARE AA-; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	120.00 (Enhanced from 93.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Ace Designers Limited (ACE) continue to derive strength from its long track of over four decades in Indian machine tools industry, where ACE has established itself as a market leader in the computer numerical control (CNC) machine segment, a diversified product portfolio, clientele and end-use industry base. Ratings also derive comfort from its strong business profile marked by healthy capacity utilisation of its manufacturing facilities, established research and development infrastructure, strong marketing network and after sales service and favourable growth prospects with large scope for import substitution. Ratings also factor growth in ACE's total income and profitability as envisaged in FY24 (FY refers to April 01 to March), its strong capital structure, debt coverage indicators and liquidity.

However, ratings are constrained by competitive industry landscape with threat of imports resulting in moderate profitability which is also susceptible to volatility associated with raw material prices in the light of majorly fixed price nature of contracts with customers. Ratings are also constrained by significant reliance of ACE on the end user, automotive industry, and cyclicality associated with capex cycle in its end user industries. Ratings also consider the risk associated with a large size capex plan, which is expected to be funded partially via term-debt.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Improvement in scale of operations and profitability leading to profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of over 12% and return on capital employed (ROCE) of over 18%.
- Improvement in market share and diversification of end user industry base.

Negative factors

- Significant decline in scale of operations and/or decline in PBILDT margin below 6% on a sustained basis.
- Major debt funded capex leading to total debt to PBILDT of over 2x on a sustained basis.
- Significant deterioration of liquidity profile due to elongation of operating cycle and/or major dividend payout.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered a consolidated analytical view of ACE and its subsidiary/JV/associates, which acts as diversification/forward integration/sales, marketing and service arm for the machine tool business of ACE. Details of entities consolidated are listed under annexure-6.

Outlook: Stable

The 'Stable' outlook on the long-term rating of ACE reflects CARE Ratings' expectation that ACE's market leading position in domestic CNC machine segment shall result in sustenance of its strong financial risk profile.

Detailed description of key rating drivers

Key strengths

Established and leading position in the domestic CNC machine segment

ACE has an extensive track record of over four decades in the domestic CNC machine market. ACE has integrated manufacturing setup with five factories with an area of 81,000+ sqm and in-house foundry and established R&D facility. ACE has annual manufacturing capacity of 6,000 CNC lathe turning machines and 3,200 CNC milling machining, where its manufacturing facilities have consistently operated at healthy capacity utilisation of ~80-90%, except in COVID-19 pandemic, resulting in installed base of over 65,000 machines globally. As informed by ACE's management, the company has leading market share of ~22% to 25% in overall domestic CNC machine market. CNC machine manufacturing is a technology and capital intensive and competitive business, resulting in strong entry barriers for new entrants, which augurs well for ACE's prospects. Over the years, ACE has also

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

established strong marketing and after sales service network in the domestic and overseas market. ACE has low mean time to repair (MTTR) of four hours, whereas mean time between failures (MTBF) stood long at 360 days.

Diversified business profile

ACE has diversified business profile marked by diversified product portfolio, clientele and end-use industry base. ACE has wide product portfolio of over 160 products, where its sales to top 10 customers stood low at ~10% over the years. Despite long life of its products, ACE generate ~60% sales from its existing customers, which underlines well-established relationship with large clientele including large automotive OEMs and tier-1 manufacturers. ACE's wide range of standard and customised products cater to the needs of end-user industries such as automotive, aerospace, education, electronics, construction, defence, energy, general engineering, pump & motors, railways, and farm equipment among others. However, ACE's reliance on automotive industry remains high at ~40-50% of its total sales, exposing the company to downturn in cyclical automotive industry.

Growth in total income and improvement in profitability margins in FY24

ACE's consolidated total operating income (TOI) grew by 11% y-o-y in FY24 backed by improvement in demand from the end-user industry, leading to healthy capacity utilisation and higher sales volume. Its PBILDT margin improved by ~300 bps y-o-y basis to 9.75% in FY24 considering lower raw material prices, economies of scale and better product mix. However, ACE's TOI declined by ~5% y-o-y in H1FY25 due to certain disruption of operation. The manufacturing facility remained closed for ~3 weeks in H1FY25 due to software integration related to amalgamation, leading to lower production volumes. This also led to lower absorption of the fixed cost leading to ~270 bps decline in its PBILDT margin in H1FY25 on y-o-y basis. However, demand for milling machines has improved from September 2024. ACE is expected to dispatch more complex and higher value machineries in H2FY25, offsetting impact of H1FY25. CARE Ratings expects ACE's TOI to grow by ~5% in FY25 and ~10%-12% per annum in medium term. ACE's PBILDT margin is expected to remain ~10% in medium term.

Strong capital structure and debt coverage indicators

ACE's capital structure stood strong marked by overall gearing of 0.09x as on March 31, 2024 (PY: 0.13x), considering heathy net-worth base of ~₹1,080 crore as on March 31, 2024, and low reliance on external debt amidst lean operating cycle. ACE's debt coverage indicators were robust in FY24 marked by total debt (TD) to PBILDT of 0.46x (PY: 0.93x) and total debt to gross cash accruals (TD/GCA) of 0.51x (PY: 0.95). The company plans to incur capex of ~₹300-₹400 crore in the next 2-3 years, which is expected to be funded through the term debt of ~₹150 crore and balance through internal accruals and available liquidity. Despite drawal of term debt, CARE Ratings expects ACE's its capital structure and debt coverage to remain strong in the near-to-medium term backed by healthy profitability and lean operating cycle.

Favourable growth prospects with large scope for import substitution

Domestic CNC machine market is dominated by few domestic players, which accounts for ~50% of domestic demand, whereas balance 50% demand is met through imports. Going forward, domestic CNC machine market is expected to witness healthy growth in the medium term amidst expected sizable capex in the end user industries supported by government initiatives including production linked incentive (PLI) scheme. Large scope for substitution of import of complex/customised CNC machines augurs well for growth prospects of domestic players.

Liquidity: Strong

ACE's strong liquidity is underlined by large cushion of expected cash accruals against term debt repayment obligations. ACE has sufficient gearing headroom to borrow for its capex and working capital requirement. However, a large part of its working capital requirement is met through trade creditors and advances from customers, resulting in lean operating cycle and healthy cash flow from operations. Utilisation of its fund based working capital limits has been low at ~26% for 12-months ended October 2024. ACE had cash and liquid investments of ~₹224 crore as on March 31, 2024, providing liquidity cushion in case of exigency.

Key weaknesses

Susceptibility to volatility associated with raw material prices

ACE's key raw material includes commodities such as cast iron, SG iron, stainless steel and hydraulic and pneumatic controllers, and electronic components among others. Consequently, profitability margins are susceptible to raw material price fluctuations with majorly fixed price nature of the contracts with customers. Post COVID-19 pandemic, ACE's profitability was substantially impacted due to elevated commodity prices, which recovered in FY24.

Competitive industry landscape adversely impacting profitability

Designing and manufacturing CNC machines is dominated by few domestic players, which accounts for ~50% of domestic demand and primarily includes standard CNC machines, whereas balance demand is catered through imports which primarily includes customised and complex CNC machines. Consequently, strong competition between domestic players and import threat creates highly competitive industry scenario, restricting pricing flexibility of industry players. Significant adverse impact of raw material price volatility and competitive pressure on the company's profitability will be a key rating monitorable.

Cyclicality associated with capex cycle in end user industries

CNC machine manufacturers derive ~50% of their revenue from automotive industry, leading to exposure of revenue to cyclical capex cycles in automotive and other end-user industries. In the past, ACE's operating performance was significantly impacted due to slowdown in automotive sector, resulting in substantial decline in its capacity utilisation and consequently impacting profitability. ACE's ability to diversity its end-user industry base will be a key rating monitorable.

Risk associated with a large size capex plan, which is expected to be funded partially via term-debt

ACE is planning to expand its manufacturing capacity with capex of ~₹300-₹400 crore in FY25-FY27, which is expected to be funded through the term debt of ~₹150 crore and balance through internal accruals and available liquidity. Timely completion and stabilisation of capex remains key monitorable. However, capex is in the same line of business where ACE has wide experience, which mitigates the risk to certain extent.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

ACE is a leading producer of machine tools in India. It is the flagship company of the Bangaluru-based Ace Mircomatic group. Incorporated in 1979, ACE was started as a partnership firm by three technocrats Shrinivas Shirgurkar, Benedict Machado and A.V. Sathe to provide machine tools design consultancy. ACE is now involved in manufacturing standard and customised CNC turning machines and CNC milling machines. In August 2023, NCLT approved the amalgamation scheme of Ace Manufacturing Systems Limited (AMS); an associate company of ACE, with ACE with appointed date effective from April 01, 2022. Earlier, ACE used to manufacture CNC turning machines, whereas AMS used to manufacture CNC milling machines. With amalgamation of AMS with ACE, manufacturing activity for CNC turning machine and CNC milling machines is now carried out under flagship entity, ACE. ACE has an installed capacity to manufacture 6,000 CNC turning machines and 3,200 CNC milling machines annually. Its manufacturing facilities are at Peenya, Bangalore (Karnataka), Kalalghatta (Karnataka) and Nelamangala (Karnataka).

Brief Financials (Consolidated) (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)*
Total operating income	1,991	2,214	924
PBILDT	135	216	60
PAT	^ 158	147	43
Overall gearing (times)	0.13	0.09	NA
Interest coverage (times)	11.37	17.96	17.34

A: Audited UA: Unaudited; Note: these are latest available financial results; NA – Not Available, *Standalone
^ PAT of ₹158 crore for FY23 includes fair valuation gain on investment in associate of ₹86 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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-Term Loan	-	-	-	31-03-2029#	161.08	CARE AA-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	103.75	CARE AA-; Stable/ CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	120.00	CARE A1+

#Tentative as it is proposed rated limit and not yet sanctioned

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	161.08	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Jan-24)	-	-
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ ST	103.75	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable/ CARE A1+ (09-Jan-24)	-	-
3	Non-fund-based - ST-BG/LC	ST	120.00	CARE A1+	-	1)CARE A1+ (09-Jan-24)	-	-

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Taurus Private Limited	Full	Subsidiaries; Material operational and financial linkages
2	AMACE Solutions Private Limited		
3	ACE Micromatic International Private Limited		
4	Michromatic Machine Tools Private Limited	Moderate	Associates; operational and financial linkages
5	Ace Multi Axes Systems Limited		

Note on complexity levels of rated instruments: CARE Ratings 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:
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