

Axiscades Technologies Limited

August 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	24.45 (Enhanced from 24.11)	CARE BBB (CWD) (Triple B) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Long-term/Short-term bank facilities	35.00 (Reduced from 65.00)	CARE BBB/CARE A3 (CWD) (Triple B/A Three) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Short-term bank facilities	-	-	Withdrawn [^]
Total bank facilities	59.45 (₹ Fifty-nine crore and forty-five lakh only)		

Details of instruments/facilities in Annexure-1.

[^]The company has repaid the said facilities and has shared the no dues certificates received from lenders with CARE Ratings Ltd (CARE Ratings).

Detailed rationale and key rating drivers

The ratings of the bank facilities of Axiscades Technologies Limited (ACTL) continue to remain on credit watch with developing implications as the acquisition of Mistral Solutions Private Limited along with its subsidiaries (referred as 'Mistral') is still under process. Due to a dispute between ACTL and Mistral, the matter was referred to arbitration tribunal, which in its order dated May 21, 2022, directed both the parties to comply with Share Purchase agreement and also directed ACTL to pay an additional charge of ₹44.45 crore to the promoters of Mistral. ACTL has paid required cash consideration involved in Phase-III and Phase-IV of the acquisition process, and only Phase-II is pending, which is likely to be completed by way of allocation of shares of ACTL to the promoters of Mistral. CARE Ratings takes note of the non-convertible debentures (NCD) of ₹100 crore raised by ACTL to fund the Phase-III and Phase-IV of acquisition and will continue to monitor the further acquisition process and its implication on ACTL's credit profile.

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, improvement in the financial risk profile of the company during FY22 with recovery in business environment though expected to moderate in FY23 on account of the additional debt availed by the company. However, these rating strengths are offset by the refinancing risk associated with low tenor NCD availed by the company, relatively moderate scale of operations, highly fragmented and competitive industry in which the company operates, prospects of the company dependent upon the end-user industry's operational performance and investment climate, especially in the aerospace segment, which forms around 26% ACTL's turnover. The ratings are also constrained by susceptibility to foreign currency fluctuation risks.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Total debt/PBIDT <1.0x and refinancing of the existing NCDs with longer tenor debt.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Non-completion of Phase-II of the acquisition by September 2023 or delay in refinancing of NCD.
- Repayment of unsecured loans availed from the promoters before repayment of NCDs.

Detailed description of the key rating drivers

Key rating strengths

Improvement in financial performance of the company: The company's performance, on a consolidated basis, improved in FY22 with 16.5% growth revenues from ₹524 crore in FY21 to ₹610 crore in FY22 with improvement in business scenario post FY21, wherein the company's operations were impacted by COVID-19. ACTL continued to maintain satisfactory PBIDT margins of around 12%. Also, during Q1FY23, the company has earned PBIDT at ₹26.36 crore vis-à-vis ₹13.07 crore in Q1FY22. The overall gearing stood satisfactory at 0.27x as of March 2022, however, the same is expected to be moderated during FY23 on account of the additional high cost debt raised by the company to fund the Phase-II—Phase-IV of the acquisition. Any more additional debt availed by the company may impact the credit profile of the company and is a key monitorable.

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

Established operational track record supported by marquee customers: ACTL commenced operation from 1990 and has more than two decades of track record of satisfactory 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 core strength of the company. The company has acquired these customers over the years, and the same are expected to continue considering the established relationship with the company.

Fair diversification across sectors and geographies: ACTL operates primarily across four sectors – Aerospace, Heavy Engineering, Automotive & Industrial Products and Renewable energy. With a share of 46%, heavy engineering is the largest part of ACTL business followed by Strategic Tech solutions – 23%, Aerospace – 26% and Automotive and Industrial Products – 3%, while remaining in the renewable energy segment in FY21. In terms of geography too, the revenues are well diversified across Europe, North America and Asia Pacific.

Key rating weaknesses

Refinancing risk associated with NCD: To pay out the consideration involved for Phase-III and Phase-IV of acquisition of Mistral, ACTL has raised NCD of ₹100 crore of tenor of three years involving two years of moratorium. Current levels of cash accrual generation are likely to be insufficient for high NCD repayments, and therefore, the company would be required to timely refinance the NCDs to bridge asset-liability mismatch.

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 can cause considerable disruption to its revenues. However, such expansion into new business segments/industry involves significant investments. The company is also faced with intense competition from large players with strong financial resources and also from niche players operating in a specific segment.

Customer concentration risk: On a consolidated basis, around 35% of ACTL's revenues during FY21 were from its top two clients (25% during FY21). The increase is majorly due to the improvement in the business scenario of its marquee customers post lifting of air travel restrictions across various countries. Hence, the company's performance largely depends upon the performance of these clients.

Liquidity: Stretched

On a consolidated basis, ACTL's cash and bank balances stood at around ₹90 crore as on March 31, 2022 (Prov.) against principal repayment obligations of around ₹22 crore for FY23. Of the cash and bank balance, around ₹40 crore belongs to Mistral which ACTL may not have access to till the completion of the acquisition process and majority of balance amount would have been utilized towards margin money for BG of ₹65 crore. On a standalone basis, ACTL's cash and bank balances stood at around ₹15 crore as on June 30, 2022. However, considering the ongoing acquisition of Mistral, which is funded majorly through high-cost debt and promoters' funds, it is expected to exert pressure on the liquidity profile of the company

Analytical approach

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

The consolidated financials of ACTL considered for analysis comprise full-consolidation of all its below-mentioned subsidiaries/step-down subsidiaries.

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	100%
10.	Mistral Solutions Private Limited (MSPL)	43%
11.	Mistral Solutions Inc. (subsidiary of MSPL)	100% shares held by MSPL
12.	Mistral Solutions Pte Limited (subsidiary of MSPL)	100% shares held by MSPL
13.	Aero Electronics Private Limited (subsidiary of MSPL)	100% shares held by MSPL
14.	Mistral Technologies Private Limited (subsidiary of MSPL)	100% shares held by MSPL

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[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

Axiscades Technologies Limited (erstwhile Axiscades Engineering Technologies Limited), 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, defense, heavy engineering, automobile and industrial products. With acquisition of ACAT in FY17 and Mistral in FY18, ACTL also entered into system integration activities focused on the defense 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 has presence in America and Europe through its overseas subsidiaries.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Abridged)	June 30, 2022 (P)
Total operating income	523.85	610.31	186.91
PBILDIT	64.67	72.05	26.36
PAT	-21.21	22.68	-31.69
Overall gearing (times)	0.43	0.27	NA
Interest coverage (times)	2.84	4.27	14.73

A: Audited; P: Provisional; *Carrying amount of goodwill related to acquisition of Mistral to the extent of ₹69.45 crore in FY22 (₹63.29 crore in FY21) has been deducted from the net worth considering the ongoing dispute between ACTL and Mistral.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

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

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/ ST-CC/Packing credit	-	-	-	-	35.00	CARE BBB / CARE A3 (CWD)
Non-fund-based - LT-Bank guarantee	-	-	-	-	3.45	CARE BBB (CWD)
Fund-based - LT-Term loan	-	-	-	March 31, 2023 [^]	21.00	CARE BBB (CWD)
Non-fund-based - ST-Loan equivalent risk	-	-	-	-	-	Withdrawn

[^]The above maturity date is mentioned for term debt which is already drawn.

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ST-CC/Packing credit	LT/ST*	35.00	CARE BBB / CARE A3 (CWD)	-	1)CARE BBB / CARE A3 (CWD) (24-Jan-22)	1)CARE BBB / CARE A3 (CWD) (03-Nov-20)	1)CARE BBB; Stable / CARE A3 (03-Jan-20)
2	Non-fund-based - LT-Bank guarantee	LT	3.45	CARE BBB (CWD)	-	1)CARE BBB (CWD) (24-Jan-22)	1)CARE BBB (CWD) (03-Nov-20)	1)CARE BBB; Stable (03-Jan-20)
3	Fund-based - LT-Term loan	LT	21.00	CARE BBB (CWD)	-	1)CARE BBB (CWD) (24-Jan-22)	1)CARE BBB (CWD) (03-Nov-20)	1)CARE BBB; Stable (03-Jan-20)
4	Non-fund-based - ST-Loan equivalent risk	ST	-	-	-	1)CARE A3 (CWD) (24-Jan-22)	1)CARE A3 (CWD) (03-Nov-20)	1)CARE A3 (03-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Term loans and working capital limits	Detailed explanation
A. Financial covenants	Total debt/EBITDA <2.50x
	DSCR >1.5x
	Interest coverage ratio >1.5x
B. Non-financial covenants	Pledge of shares of ACTL to extent of 1.40x for the term loan exposure and pledge of shares of Axiscades Aerospace & Technologies Private Limited to the extent of 30% held by ACTL.
	The company would keep us informed of any event likely to have substantial effect on their profit or business.

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

Sr. No.	Name of 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
4	Non-fund-based - ST-Loan equivalent risk	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on 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:

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