

Axiscades Technologies Limited
(Erstwhile Axiscades Engineering Technologies Limited)

January 24, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating¹	Rating Action
Long Term Bank Facilities	24.11 (Reduced from 28.06)	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	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	3.70 (Reduced from 6.30)	CARE A3 (CWD) (A Three) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Total Bank Facilities	92.81 (Rs. Ninety-Two Crore and Eighty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of Axiscades Technologies Ltd (ACTL) continues to be on credit watch with developing implications on account of the ongoing arbitration proceedings between ACTL and Mistral Solutions Private Ltd (MSPL) related to the acquisition of MSPL along with its subsidiaries (referred as 'Mistral') by ACTL. The outcome of proceedings and its likely impact on ACTL's credit profile is not yet clear. CARE will continue to monitor the said development and will take appropriate action once the clarity emerges on above event.

The ratings continue to factor in established operational track record of the company with marquee customers supported by fair diversification across sectors and geographies. While company's operations were impacted due to Covid-19, with recovery in business environment, company's sales are likely to improve in near to medium term. As such, aided by improvement in cash flow from operations, company's borrowing levels have come down significantly in past 1-1.5 years. However, these rating strengths are partially offset by its relatively moderate scale of operations in a highly fragment and competitive industry, prospects of company dependent upon end user industry's operational performance and investment climate especially in the aerospace segment which forms ~23% 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:

- Improvement in overall gearing to below 0.50x on sustained basis on net debt basis.

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

- Deterioration of overall gearing to 1.0x on net debt basis.

Detailed description of the key rating drivers

Key Rating Strengths

Satisfactory financial risk profile of company

Financials risk profile of ACTL is characterized by continuing satisfactory capital structure and debt coverage indicators though witnessed moderation in revenues due to disruption in operations amid Covid19. On consolidated basis, company's revenues declined by 21.4% to Rs.533 Cr in FY21 from Rs.679 Cr in FY20, posted net loss of Rs.21.2 Cr in FY21 (FY20: net profit of Rs.30.3 Cr) with losses majorly on account of Rs.40.80 Cr non-cash expenses pertaining to Mistral acquisition. Adjusted to the goodwill pertaining to Mistral acquisition, overall gearing of the company stood satisfactory at 0.43x as of March 31, 2021 (March 31, 2020: 0.89x). Debt coverage indicators continues to be satisfactory with TDGCA of 2.2x as of Mar'21 (3.1x as of Mar'20) and interest coverage of 3.26x in FY21 (3.40x in FY20) with improvement majorly due to term debt repayments and lower working capital utilization as of Mar'21.

In H1FY22, on Consolidated basis, company recorded revenue of Rs.253.6 Cr (H1FY21: Rs.257.9 Cr) with net profit of Rs.4.1 Cr (H1FY21: net loss of 16.29 Cr). With recovery in business environment, company's revenues are expected to return to pre Covid levels.

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. 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 42%, heavy engineering is the largest part of ACTL business followed by Strategic Tech solutions – 30%, Aerospace – 23% and Automotive and Industrial Products – 3% while remaining in renewable energy segment in FY21. In terms of geography too, revenues are well diversified across Europe, North America and Asia Pacific.

Key Rating Weaknesses

Ongoing arbitration proceedings between ACTL and Mistral

In FY17, ACTL had entered into a Share Purchase Agreement (SPA) with Mistral to acquire 100% stake in Mistral Solutions Private Limited along with its subsidiaries in a phased manner. During Phase-I, Company acquired 43.38% stake in Mistral at cost of Rs.70 crore which was funded entirely with debt. Balance stake was to be acquired in various phases, however, both the parties filed arbitration proceedings against each other claiming that sufficient steps are not taken by the other party to bring transaction to conclusion. Currently the matter is pending with the arbitration tribunal.

Intense competition in the industry

Company is a marginal player though it has established customer base across diverse industry segments. Operating environment of the end user industry has a significant impact on company's performance. Hence 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. 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 consolidated basis, around 42% of ACTL's revenues during FY21 were from its top 3 clients (48% during FY20). with reduction majorly due to decline in revenues from one of its major customers on account of air travel restrictions across various countries. Hence, company's performance largely depends upon the performance of these clients.

Liquidity: Adequate

On consolidated level, Company has liquid balances of Rs.73 crore as of September 30, 2021 against debt repayment of ~Rs.11 Cr for H2FY21. On standalone level, ACTL's free cash and bank balances of Rs.3.67 Cr as of Sept'21 and ACAT's cash and bank balances stood at Rs.11.39 Cr as of June 30, 2021. The liquidity would be sufficient for debt servicing in case of any unforeseen events caused due to 3rd wave of Covid19 spread and market downturns in the near term. Furthermore, company has adequate unutilized fund based working capital limits with its average working capital limits' utilization stood moderate at 18.50% for the past 12 months ended Nov'21.

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

The consolidated financials of ACTL considered for analysis comprise of full-consolidation of all its below mentioned subsidiaries/Step-down subsidiaries as per its audited annual report for FY21.

Sr. No.	Name of Company	% of Holding by ACTL
1.	AXISCADES, Inc.	100%
2.	AXISCA.DES 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

CARE has also analyzed the scenario of de-consolidating Mistral (and its subsidiaries) financials due to ongoing merger issues.

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

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 of 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 defense sector involving hardware and in product design, development and deployment. ACTL has delivery centers in Noida, Hyderabad, Chennai & Bangalore. Apart from this, the company has presence in America and Europe through its overseas subsidiaries.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	679.16	533.53	253.64
PBILDT	98.67	74.35	27.89
PAT	30.30	-21.21	4.11
Overall gearing (times)*	0.89	0.43	0.37
Interest coverage (times)	3.40	3.26	3.45

A: Audited; UA: Un-Audited; *Carrying amount of goodwill related to acquisition of Mistral to the extent of Rs.63.29 Cr in H1FY22 & FY21 (FY20: Rs.125.83 Cr) has been deducted from 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 last three years: Please refer 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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	65.00	CARE BBB / CARE A3 (CWD)
Non-fund-based - LT-Bank Guarantees	-	-	-	-	2.95	CARE BBB (CWD)
Fund-based - LT-Term Loan	-	-	-	January 16, 2022	21.16	CARE BBB (CWD)
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	-	3.70	CARE A3 (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ST-CC/Packing Credit	LT/ST*	65.00	CARE BBB / CARE A3 (CWD)	-	1)CARE BBB / CARE A3 (CWD) (03-Nov-20)	1)CARE BBB; Stable / CARE A3 (03-Jan-20)	1)CARE BBB; Negative / CARE A3 (07-Feb-19) 2)CARE BBB+; Negative / CARE A3+ (21-Aug-18)
2	Non-fund-based - LT-Bank Guarantees	LT	2.95	CARE BBB (CWD)	-	1)CARE BBB (CWD) (03-Nov-20)	1)CARE BBB; Stable (03-Jan-20)	1)CARE BBB; Negative (07-Feb-19) 2)CARE BBB+; Negative (21-Aug-18)
3	Fund-based - LT-Term Loan	LT	21.16	CARE BBB (CWD)	-	1)CARE BBB (CWD) (03-Nov-20)	1)CARE BBB; Stable (03-Jan-20)	1)CARE BBB; Negative (07-Feb-19) 2)CARE BBB+; Negative (21-Aug-18)
4	Non-fund-based - ST-Loan Equivalent Risk	ST	3.70	CARE A3 (CWD)	-	1)CARE A3 (CWD) (03-Nov-20)	1)CARE A3 (03-Jan-20)	1)CARE A3 (07-Feb-19) 2)CARE A3+ (21-Aug-18)

* Long Term / Short Term

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

Term loans & working capital limits	Detailed explanation
A. Financial covenants	Total debt/TNW <=1.5
	Total debt/EBITDA <= 3.0
	DSCR >= 1.25x
B. Non financial covenants	Min. Shareholding: min.51% shareholding of Jupiter capital and its group to be maintained.
	Any acquisition will require lender's approval
	Pledge of shares to extent of 1.40x for the exposure of both of the companies ACTL & ACAT.

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 Guarantees	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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