

Axiscades Technologies Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	24.45	CARE BBB; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long-term / Short-term bank facilities	35.00	CARE BBB; Stable / CARE A3	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Axiscades Technologies Limited (ACTL) were placed under rating watch with developing implications, as ACTL was in the process of acquiring Mistral Solutions Private Limited along with its subsidiaries (referred as 'Mistral'). However, due to dispute between ACTL and Mistral, acquisition of balance phases (viz., II to IV) was delayed beyond reasonable timelines, and the matter was referred to arbitration tribunal. The arbitration tribunal vide its order dated May 21, 2022, directed both the parties to comply with the share purchase agreement (SPA) and complete the acquisition process. Accordingly, ACTL has now paid the entire consideration amount (along with additional interest) to the promoters of Mistral and has completed the acquisition process. Therefore, the ratings have now been removed from rating watch with developing implications.

CARE Ratings Limited (CARE Ratings) takes note of the completion of Phase II by way of cash consideration of ₹72.13 crore, which has been funded using the ₹45 crore of additional non-convertible debentures (NCDs) raised, and balance using the promoters' funds and internal accruals, as against the earlier expectation of completion of Phase II using shares allocation. Additional debt availed might impact the capital structure in the near term; however, CARE Ratings expects ACTL's business profile to improve on the basis of acquisition of new clients besides enhanced order from existing customers, improvement in order book of its subsidiaries and enhanced synergies between ACTL and Mistral.

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 financial risk profile of the company with healthy recovery in business environment during H1FY23. These rating strengths are partially offset by the refinancing risk associated with low tenor NCDs availed by the company, relatively moderate scale of operations though improving, 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. The ratings are also constrained by susceptibility to foreign currency fluctuation risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Refinancing of the existing NCDs with longer tenor debt leading to debt service coverage ratio (DSCR) >1.50x throughout the loan tenor and maintenance of total debt/PBDIT of less than 2x.

Negative factors

- Additional debt availed by the company leading to total debt/PBDIT of more than 3.5x significant deterioration in credit profile of the company.
- Unable to refinance NCDs beyond reasonable timelines.

Analytical approach: Consolidated

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

The consolidated financials of ACTL considered for analysis comprise full-consolidation of subsidiaries mentioned in Annexure-6.

Key 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

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

COVID-19. ACTL continued to maintain satisfactory PBIDT margins of around 12%. Also, during H1FY23, the company has earned PBIDT at ₹69.97 crore vis-à-vis ₹27.89 crore in H1FY22. The overall gearing stood satisfactory at 0.21x as of March 2022; however, the same is expected to be moderated as of March 2023 on account of the additional high-cost debt raised by the company to fund Mistral's acquisition. Any more additional debt availed by the company may impact the credit profile of the company and is a key monitorable.

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 the core strength of the company. CARE Ratings notes that 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 and 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 FY22. In terms of geography too, the revenues are well diversified across Europe, North America and Asia Pacific.

Key weaknesses

Refinancing risk associated with NCD

To pay out the consideration involved for Phase-II to Phase-IV of acquisition of Mistral, ACTL has raised NCD of ₹145 crore of tenor of one-three years. The 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 also faces intense competition from large players with strong financial resources as well as from niche players operating in a specific segment.

Customer concentration risk

On a consolidated basis, around 35% of ACTL's revenues during FY22 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: Adequate

On a consolidated basis, ACTL's cash and bank balances stood at around ₹80 crore as on December 31, 2022, as against principal repayment obligations of less than ₹10 crore for Q4FY23. On a standalone basis, ACTL's and ACAT's cash and bank balances stood at ₹11.46 crore and ₹5.61 crore, respectively, as on December 31, 2022. With expected overall gearing of less than 1.0x and cash accruals of more than ₹40 crore, the company has adequate headroom to raise additional debt in case required.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Rating 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 (A)	September 30, 2022 (UA)
Total operating income	523.85	610.31	386.85
PBILDT	64.67	71.27	69.97
PAT	-21.21	22.68	-10.61
Overall gearing (times)	0.34	0.21	NA
Interest coverage (times)	2.84	4.43	6.82

A: Audited; UA: Un-Audited; NA: Not available

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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-Term loan	-	-	-	March 31, 2023	21.00	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing credit	-	-	-	-	35.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT-Bank guarantee	-	-	-	-	3.45	CARE BBB; Stable

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; Stable / CARE A3	1)CARE BBB / CARE A3 (RWD) (27-Dec-22) 2)CARE BBB / CARE A3 (CW with Developing Implications) (22-Aug-22)	1)CARE BBB / CARE A3 (CW with Developing Implications) (24-Jan-22)	1)CARE BBB / CARE A3 (CW with Developing Implications) (03-Nov-20)	1)CARE BBB; Stable / CARE A3 (03-Jan-20)
2	Non-fund-based - LT-Bank guarantee	LT	3.45	CARE BBB; Stable	1)CARE BBB (RWD) (27-Dec-22)	1)CARE BBB (CW with	1)CARE BBB (CW with	1)CARE BBB; Stable (03-Jan-20)

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
					2)CARE BBB (CW with Developing Implications) (22-Aug-22)	Developing Implications) (24-Jan-22)	Developing Implications) (03-Nov-20)	
3	Fund-based - LT-Term loan	LT	21.00	CARE BBB; Stable	1)CARE BBB (RWD) (27-Dec-22) 2)CARE BBB (CW with Developing Implications) (22-Aug-22)	1)CARE BBB (CW with Developing Implications) (24-Jan-22)	1)CARE BBB (CW with Developing Implications) (03-Nov-20)	1)CARE BBB; Stable (03-Jan-20)
4	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	1)Withdrawn (22-Aug-22)	1)CARE A3 (CW with Developing Implications) (24-Jan-22)	1)CARE A3 (CW with Developing Implications) (03-Nov-20)	1)CARE A3 (03-Jan-20)

*LT/ST: Long term/Short term.

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

Name of the Instrument – Term Loan, Bank Guarantee, Cash Credit/Packing Credit	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 the various instruments rated

Sr. No.	Name of the 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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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.

Annexure-6: Entities under consolidation by ACTL

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	76%
7.	AXISCADES Aerospace & Technologies Private Limited ('ACAT')	100%
8.	AXISCADES Aerospace Infrastructure Private Limited, subsidiary of ACAT	100%
9.	Enerotec Controls Limited, subsidiary of ACAT ('Enerotec')	100%
10.	ASSYSTEM AXISCADES Engineering Private Limited ("AAEPL")	50%#
11.	Mistral Solutions Private Limited (MSPL)	99.2%
12.	Mistral Solutions Inc. (subsidiary of MSPL)	100% shares held by MSPL
13.	Mistral Solutions Pte Limited (subsidiary of MSPL, dissolved during FY22)	100% shares held by MSPL
14.	Aero Electronics Private Limited (subsidiary of MSPL)	100% shares held by MSPL
15.	Mistral Technologies Private Limited (subsidiary of MSPL)	100% shares held by MSPL

#Associate up to July 11, 2022.

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About us:

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