

Axiscades Engineering Technologies Limited

January 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	33.42 (reduced from 38.58)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Long/ Short term Bank Facilities	65.00	CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/ A Three)	LT rating revised from CARE BBB; Negative (Triple B; Outlook: Negative), ST term rating reaffirmed
Short term Bank Facilities	6.30	CARE A3 (A Three)	Reaffirmed
Total	104.72 (Rs. One Hundred Four crore and Seventy-Two lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook reflects improvement in financial performance of the company with company posting net profit in H1FY20 after posting losses for two consecutive years FY18 and FY19 which is likely to sustain, going forward. The ratings of bank facilities of Axiscades Engineering Technologies Limited (ACET) continues to derive strength from established operational track record of the company with fair diversification across sectors and geographies and adequate liquidity position. The rating also factor changes in management and elevation of key managerial personnel in the company. However, these rating strengths are partially offset by intense competition in the Engineering Research and Design (ERD) segment, exposure of business to end user industry's investment climate and susceptibility to foreign currency fluctuation risks.

Rating Sensitivities

Positive:

- Improvement in overall gearing to 0.30x
- Sustenance of improved operations of Axiscades Aerospace & Technologies Private Ltd. (ACAT).

Negative:

- Deterioration of overall gearing to 0.60x
- Any additional debt availed by the company

Outlook: The revision in outlook from 'Negative' to 'Stable' reflects likely sustenance of profitable operations of the company post recovery witnessed in Axiscades Aerospace & Technologies Private Ltd. (ACAT; one of businesses acquired by ACET), absence of onetime expenses incurred in past and improvement in order book position of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in financial risk profile of company in H1FY20 after posting losses for two consecutive years in FY18 and FY19

Financial risk profile of the company started improving in H1FY20 with company posting net profit of Rs.5.92 crore in H1FY20 after posting net loss of Rs.7.81 crore and 7.67 crore in FY18 and FY19 respectively on consolidated level. The company witnessed turnaround in H1FY20 with receipt of defense orders by ACET's subsidiary Axiscades Aerospace and Technologies P Ltd (ACAT). Further, ACET (on consolidated level) has order book position of Rs. 700 Cr for FY20. Further, ACET had earlier incurred various onetime expenses viz. write off of receivables, separation costs, non-cash expenses due to Mistral's acquisition, forex losses due to restatement of foreign currency loan etc. which are non-recurring in nature.

Change in management and elevation of key managerial personnel

ACET made several changes in the management such as appointing Mr. David Richard Bradley (Non-executive director) as Chairman in May, 2019 in place of Dr. Vivek Mansingh who resigned post completion of his tenure. Mr. Sharadhi Babu and Mr. A. Srinivas has been appointed as CEO and CFO of the company, respectively. Mr. Bradley has around 30 years of related industry experience in various areas such as advanced robotics, Aerospace and Nuclear activities. The change in management

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

resulting into elevation of key managerial persons with organisation and appointment of Chairman having past experience in similar field is likely to enhance prospects of the company

Established operational track record

ACET commenced operation from 1990 and has more than two decades of track record of satisfactory operation. Satisfactory execution of the projects awarded enabled the company to establish its credentials and repeat orders from its clients, which has been core strength of the company.

Fair diversification across sectors and geographies

ACET operates primarily across four sectors – Aerospace, Heavy Engineering, Automotive & Industrial Products and Renewable energy. With a share of 41.3%, heavy engineering is the largest part of ACET business followed by Aerospace – 31.5%, Strategic Tech solutions – 21.3% and Automotive and Industrial Products - 3.4% while remaining in renewable energy segment in FY19. In terms of geography too, revenues are well diversified around Europe, North America Asia Pacific.

Key Rating Weaknesses**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 revenue. However, such expansion into new business segments / industry involves significant investments. Company is also faced with intense competition from large players with strong financial resource and also niche players operating in a specific segment.

Customer concentration risk

Around 48% of ACET's revenues (on consolidated basis) during FY18 & FY19 were from its top 2 clients. Hence, company's performance largely depends upon the performance of these clients. The downsizing of global projections of one of its top client, impacted the performance of ACET in FY18 and FY19.

Liquidity: Adequate

Company's liquidity stands adequate with cash and bank balance of Rs.47.3 crore as on Sept'19 (Rs. 58.3 crore as on Mar'19) as against yearly term loan repayments of Rs. 20 crore. Further, working capital utilization level was low at 26.7% for the past 12 months ending Oct'19.

Analytical approach: CARE has considered the consolidated approach to analyze the company and group companies in view of strong financial, operational and managerial linkages between them. The consolidated financials of ACET considered for analysis comprise of full-consolidation of all its subsidiaries/Step-down subsidiaries (as per Annexure-4) as per its audited annual report for FY19.

Applicable Criteria

[CARE's methodology for service sector companies](#)

[CARE's methodology for Short-term Instruments](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[Financial Ratios-Non Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

About the Company

Axiscades Engineering Technologies Limited (ACET), 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, ACET also entered into system integration activities focused on defense sector involving hardware and in product design, development and deployment. ACET has delivery centers in Noida, Hyderabad, Chennai & Bangalore. Apart from this, the company has presence in America and Europe through its overseas subsidiaries.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	530.47	611.43
PBILDT	29.68	17.38
PAT	-7.81	-7.67
Overall gearing (times)	0.47	0.53
Interest coverage (times)	2.05	0.69

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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; Stable / CARE A3
Non-fund-based - LT-Bank Guarantees		-	-	-	2.95	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	Sept 2022	30.47	CARE BBB; Stable
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	6.30	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	65.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Negative / CARE A3 (07-Feb-19) 2)CARE BBB+; Negative / CARE A3+ (21-Aug-18)	1)CARE BBB+; Stable / CARE A3+ (05-Jan-18) 2)CARE BBB+ / CARE A3+ (Under Credit watch with Developing Implications) (14-Nov-17)	1)CARE BBB+; Stable / CARE A3+ (27-Mar-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	2.95	CARE BBB; Stable	-	1)CARE BBB; Negative (07-Feb-19) 2)CARE BBB+; Negative (21-Aug-18)	1)CARE BBB+; Stable (05-Jan-18) 2)CARE BBB+ (Under Credit watch with Developing Implications) (14-Nov-17)	1)CARE BBB+; Stable (27-Mar-17)
3.	Fund-based - LT-Term	LT	30.47	CARE BBB;	-	1)CARE BBB;	1)CARE BBB+;	1)CARE BBB+;

	Loan			Stable		Negative (07-Feb-19) 2)CARE BBB+; Negative (21-Aug-18)	Stable (05-Jan-18) 2)CARE BBB+ (Under Credit watch with Developing Implications) (14-Nov-17)	Stable (27-Mar-17)
4.	Non-fund-based - ST- Loan Equivalent Risk	ST	6.30	CARE A3	-	1)CARE A3 (07-Feb-19) 2)CARE A3+ (21-Aug-18)	1)CARE A3+ (05-Jan-18)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	DSRA: 3 months' principal and interest
	Total debt/TNW <=1.5
	Minimum DSCR: 1.25x
B. Non financial covenants	Security: <ul style="list-style-type: none"> First Pari Passu charge on land and building of company situated at D-30, Sector 3, Noida, UP First Pari Passu charge on entire current assets and movable tangible fixed assets of the company (both present & future). Pledge of shares to extent of 1.40x for the exposure of both of the companies ACET & ACAT.

Annexure-4 (List of subsidiaries consolidated)

Sr. No.	Name of Company	% of Holding/ Control by ACET
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.	Enertec Controls Limited, subsidiary of ACAT ('Enertec')	100%
9.	AXISCADES Aerospace Infrastructure Private Limited, subsidiary of ACAT ('AAIPL')	100%
10.	Mistral Solutions Private Limited (MSPL)	100%
11.	Aero Electronics Private Limited (subsidiary of MSPL) (AEPL)	100%
12.	Mistral Technologies Private Limited (subsidiary of MSPL) (MTPL)	100%
13.	Mistral Solutions Inc.	100%
14.	Mistral Solutions Pte Limited (subsidiary of MSPL) (MSP)	100%

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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