Axiscades Engineering Technologies Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	40.45 (enhanced from 1.87)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Removed from credit watch with developing implications; Rating Reaffirmed**
Long/Short Term Bank Facilities	40.0 (35.0)	**CARE BBB+; Stable/A3+ (Triple B Plus; Outlook: Stable / A Three Plus)**	**Removed from credit watch with developing implications; Rating Reaffirmed**
Short Term Bank Facilities	6.30	**CARE A3+ (A Three Plus; Outlook: Stable)**	**Assigned**
Total	**86.75 (Rs. Eighty Six crore and Seventy Five lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The above ratings of bank facilities of Axiscades Engineering Technologies Limited (ACET) had been placed under 'credit watch with developing implications' post announcement by ACET to acquire Mistral Solutions Private Limited (Mistral) in various phases for total consideration of Rs. 175 crore. In Nov'17, ACET has acquired 43.38% in Mistral for consideration of Rs.70 crore and balance stake is expected to be acquired in phases.

Even though the acquisition was entirely funded out of debt, considering satisfactory financial risk profile of Mistral with negligible debt and healthy cash and bank balance, overall financial risk profile of ACET is expected to remain favourable. In view of the above, ratings have been removed from 'credit watch with developing implications'. The ratings continue to factor in established operational track record of ACET in the engineering design services with fair diversification across sectors. These strengths are offset by company's exposure to end user industry's performance, declining PBDIT margins and cash accruals but comfortable liquidity in terms of cash and bank balance and low working capital utilization. The ratings are also constrained by customer concentration risk, intense competition in the Engineering Research and Design (ERD) segment and exposure to foreign currency fluctuation risks.

Going forward, company's ability to recover its profitability margins and to establish its presence in newer domains where investments are being made will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capital structure and liquidity

The capital structure of Axiscades continues to remain comfortable with overall gearing of 0.30x as on Mar'17 (Mar'16: 0.33x) with high cash and bank balance of Rs. 71.9 crore. The gearing is expected to deteriorate due to debt funded acquisition of Mistral. However, credit profile of Mistral is satisfactory with negligible debt, healthy cash balance and strong revenue growth in FY17. The acquisition is expected to be margin accretive and ACET is looking at synergies in technology offerings and benefits from diverse customers and industries through this acquisition.

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 38.7%, Aerospace is the largest part of ACET business followed by Heavy Engineering - 29.3%, Defense - 23% and Automotive and Industrial Products - 4.6% while remaining in renewable energy segment.

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

Key Rating Weaknesses

Decline in operating margins and cash accruals

The PBDIT margin of Axiscades remained modest at 8.98% in FY17 as against 9.53% in FY16. PBILDT margin declined further in H1FY18 to 6.84% impacted by tepid demand environment, rupee appreciation and subdued returns from investment in newer domains. However, recovery in margin is expected with contribution from Mistral and revival in demand.

Intense competition in the ERD segment

Company is a relatively small 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 51% of company's revenues come from its top 3 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.

Analytical approach: Consolidated financial performance of ACET along with its subsidiaries is considered due to strong financial, operational and managerial linkages between them.

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

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 Axiscades Aerospace and Technologies P Ltd. (ACAT) in FY17, ACET also entered into system integration activities focused on defense sector involving hardware. ACET has four delivery centers in India (at Noida, Hyderabad, Chennai & Bangalore) of which the delivery centre in Noida is registered as an STP (Software Technology Park) unit (the registration bestows significant benefits to the unit). Apart from this, the company has presence in America and Europe through its overseas subsidiaries.

Acquisition of Mistral Solutions Private Limited by ACET: During Nov'17, company has completed the acquisition of Mistral in which it acquired 43.38% but will have full board representation. The complete acquisition of Mistral is planned in a phased manner within a timeline of five years. The total acquisition cost is estimated at Rs. 175 crore out of which Rs. 70 crore was paid as cash consideration while remaining Rs. 105 crore will be paid by way of allotment of shares of ACET.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	379.0	490.0
PBILDT	57.0	44.0
PAT	29.0	13.6
Overall gearing (times)	0.2	0.4
Interest coverage (times)	31.8	3.7

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	40.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantees	-	-	-	2.95	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	September, 2022	37.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	40.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB+ / CARE A3+ (Under Credit watch with Developing Implications) (14-Nov-17)	1)CARE BBB+; Stable / CARE A3+ (27-Mar-17)	1)CARE BBB+ / CARE A3+ (Under Credit Watch) (22-Feb-16) 2)CARE BBB+ / CARE A3+ (14-Apr-15)	1)CARE BBB- / CARE A3 (29-May-14)
2.	Non-fund-based - LT-Bank Guarantees	LT	2.95	CARE BBB+; Stable	1)CARE BBB+ (Under Credit watch with Developing Implications) (14-Nov-17)	1)CARE BBB+; Stable (27-Mar-17)	1)CARE BBB+ (Under Credit Watch) (22-Feb-16) 2)CARE BBB+ (14-Apr-15)	1)CARE BBB- (29-May-14)
3.	Fund-based - LT-Term Loan	LT	37.50	CARE BBB+; Stable	1)CARE BBB+ (Under Credit watch with Developing Implications) (14-Nov-17)	1)CARE BBB+; Stable (27-Mar-17)	1)CARE BBB+ (Under Credit Watch) (22-Feb-16) 2)CARE BBB+ (14-Apr-15)	-
4.	Non-fund-based - ST-Loan Equivalent Risk	ST	6.30	CARE A3+	-	-	-	-

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