Axiscades Engineering Technologies Limited

February 07, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	38.58 (reduced from 40.45)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**
Long/ Short term Bank Facilities	65.00 (enhanced from 40.0)	**CARE BBB; Negative/ CARE A3+ (Triple B; Outlook: Negative/ A Three Plus)**	**Revised from CARE BBB+; Negative/ CARE A3+ (Triple B Plus; Outlook: Negative/ A Three Plus)**
Short term Bank Facilities	6.30	**CARE A3 (A Three)**	**Revised from CARE A3+**
Total	**109.88 (Rs. One Hundred Nine crore and Eighty Eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of rating assigned to the bank facilities of Axiscades Engineering Technologies Limited (ACET) factors in the sustained weak performance in 9MFY19, attributable to subdued performance of the recently acquired businesses of Axiscades Aerospace and Technologies Limited (ACAT) and Mistral Solutions Private Limited (Mistral) resulting in weak profitability and an overall deterioration in financial risk profile. The rating continues to be constrained 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.

However, the rating derives strength from its established operational track record of ACET in the engineering design services with fair diversification across sectors and satisfactory liquidity position with adequate level of cash and bank balance notwithstanding moderation of the same in recent quarters.

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

Outlook: Negative. The negative outlook reflects likely lower cash flow from operations than earlier expectations driven by delay in recovery in business demand. Continued subdued performance of these businesses will weigh negatively on the ratings of the company. The outlook may be revised to 'Stable' in case of recovery in performance of the company and its subsidiaries.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in financial risk profile of company with losses reported in FY18 and 9MFY19

Company reported net loss of Rs. 7.8 crore in FY18 and Rs.8.5 crore in 9MFY19 on back of tepid demand environment, renewal of contracts at lower margins and subdued returns from investment in newer domains. The acquisitions in the past were expected to be margin contributing and to bring more synergies in ACET's technology offerings, however the same remains to be seen. This alongwith write-off of receivables, higher one time employee benefit expense, forex loss etc. led to company incurring losses. Recovery in margin is expected with addition of 18 clients added at better margins, contribution from Mistral's major billings in Q4FY19 and USD 20 mn contract won by ACAT.

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.

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

Customer concentration risk
More than 60% 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 in FY18 and 9MFY19.

Key Rating Strengths
Comfortable capital structure and liquidity though moderated
The capital structure of Axiscades has witnessed marginal deterioration with overall gearing of 0.47x as on Mar'18 (Mar'17: 0.30x) due to the debt funded acquisition of Mistral and increased reliance on WC borrowings. The company has adequate cash and bank balance of Rs. 31 crore as on Dec'18 though the same has declined from Rs.61.9 crore as on Mar'18. WC utilization is low at 27% for 12 months ending October'18.

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 40.1%, Aerospace is the largest part of ACET business followed by Heavy Engineering – 38.4%, Strategic Tech solutions – 10.3% and Automotive and Industrial Products - 3.6% while remaining in renewable energy segment in FY18.

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-3) as per its audited annual report for FY18.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[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 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 four delivery centers in India (at Noida, Hyderabad, Chennai & Bangalore) of which the delivery centre in Hyderabad and Bangalore are registered as STP (Software Technology Park) units (the registration bestows significant benefits to the unit). Apart from this, the company has presence in America and Europe through its overseas subsidiaries.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	492.34	530.47
PBILDT	44.73	29.68
PAT	14.55	-7.81
Overall gearing (times)	0.27	0.47
Interest coverage (times)	3.41	2.05

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.*

Analyst Contact:
Name: Himanshu Jain
Tel: 080-46625528
Mobile: 8123793395
Email: himanshu.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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	-	-	-	65.00	CARE BBB; Negative / CARE A3
Non-fund-based - LT-Bank Guarantees	-	-	-	2.95	CARE BBB; Negative
Fund-based - LT-Term Loan	-	-	September 2022	35.63	CARE BBB; Negative
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	65.00	CARE BBB; Negative / CARE A3	1)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)	1)CARE BBB+ / CARE A3+ (Under Credit Watch) (22-Feb-16) 2)CARE BBB+ / CARE A3+ (14-Apr-15)
2.	Non-fund-based - LT-Bank Guarantees	LT	2.95	CARE BBB; Negative	1)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)	1)CARE BBB+ (Under Credit Watch) (22-Feb-16) 2)CARE BBB+ (14-Apr-15)
3.	Fund-based - LT-Term Loan	LT	35.63	CARE BBB; Negative	1)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)	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	1)CARE A3+ (21-Aug-18)	1)CARE A3+ (05-Jan-18)	-	-

Annexure-3 (List of subsidiaries consolidated)

Sr. No.	Name of Company	% of Holding 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%

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691