# Axiscades Engineering Technologies Limited

March 27, 2017

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term/ Short Bank Facilities | 35 | **CARE BBB+; Stable/A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)** | **Removed from credit watch; Rating Reaffirmed** |
| Long-term Bank Facilities | 1.87 | **CARE BBB+; Stable (Triple B Plus; Outlook: Stable)** | **Removed from credit watch; Rating Reaffirmed** |
| **Total facilities** | **36.87** <br><br> **(Rs. Thirty Six crore and Eighty seven lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The above ratings of bank facilities of Axiscades Engineering Technologies Ltd (ACET) had been placed under 'credit watch' due to company's plan to acquire its fellow subsidiary Axiscades Aerospace and Technologies P Ltd. (ACAT) by way of Scheme of Amalgamation of India Aviation Training Institute Pvt. Ltd. (IAT, holding company of ACATL) with itself. With completion of the acquisition process, ratings have been removed from 'credit watch'.

The re-affirmation of ratings factors in continuation of favourable financial risk profile of the combined entity (Axiscades) marked by comfortable capital structure and debt coverage metrics. The rating also takes comfort from long track record of operation of ACET in the engineering design services with fair diversification across sectors and geographies while ACAT with its system integration capability focused on defense sector offers complementary capabilities. These strengths are offset by company's exposure to end user industry's performance, one of which is presently faced with challenging demand environment, customer concentration risk, intense competition in the Engineering Research and Design (ERD) segment and exposure to foreign currency fluctuation risks. The rating also takes note of decline in operating profitability of the merged entity attributable during 9MFY17 attributable to decline in profitability at ACET while ACAT reported improvement during the same period, post weak performance in the past.

Going forward, ability of ACAT to receive high margin orders, manage its working capital requirement effectively and ACET's ability to establish its presence in newer domains where investments are being made and expand its client base while improving its profitability margin will be the key rating sensitivities.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Continuation of favourable financial risk profile post acquisition:*** As combined entity, i.e. Axiscades's capital structure continues to remain comfortable with overall gearing and TDGCA of 0.38x and 1.88x respectively as on Mar'16. As on Dec'16, the overall gearing improved to 0.30x.

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

***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 among geographies and sectors:*** ACET operates primarily across four sectors with larger share of revenues from Aerospace (51% in FY16)and Heavy Engineering (37% in FY16) segments while the remaining from Renewable Energy and Automotive & Industrial products. In terms of geography too, revenues are well diversified with around 51% of revenues from Europe, 35% from North America and remaining from Asia Pacific.

**Key Rating Weaknesses**

***Customer concentration risk:*** Around 70% of company's revenues come from its top 3 clients. Hence, company's performance largely depends upon the performance of these clients. As explained below, due to downsizing of global projections of its top client, impacted the performance of ACET.

***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.

***Decline in operating margins:*** As combined entity, Axiscades PBDIT margin was at 9.53% during FY16 (unaudited) as against ACET's consolidated margin of 14.24%. This was on account of thinner margins of ACAT (5.4% in FY16) which impacted the overall margin of combined entity. The PBDIT margins of Axiscades declined further to 9.09% during 9MFY17 due to downsizing of global projections of one of the major client of ACET along with ACET's investments in newer domains to bring expert partner and thereby increase in project consultancy charges and employee costs. The company expects to generate benefit from these investments in another 1-2 years down the line.

**Analytical approach:** Consolidated financials of ACET were considered till FY16 due to strong operational, financial and managerial linkages between ACET and its subsidiaries. With acquisition completed on December 30, 2016 with effect from April 1, 2016, CARE has also analyzed combined financials of ACET (consolidated) and ACAT for FY16 and 9MFY17.

**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, it shifted to Engineering Design Services (EDS) upon acquisition of Axis Inc, a company engaged in such services, in the year 2003. Axis Inc was merged into IEPL, which was thereupon renamed as Axis IT&T Ltd (AITL) in the year 2005. Further upon merger with its subsidiary Cades Digitech Pvt Ltd in May 2014, the combined entity was rechristened as ACET.

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 ACAT by ACET: Company has completed the acquisition of ACAT by way of Scheme of Amalgamation of India Aviation Training Institute Pvt. Ltd. (IAT, holding company of ACAT) with itself. The acquisition was completed on

December 30, 2016 with effective date of April 1, 2016. ACAT is engaged in system integration activities for defense and offset business partnering with major OEMs in the areas of electronics, avionics etc.

ACET posted net profit (after tax) of Rs. 29.0 crore in FY16 (Audited, refers to the period April 1 to March 31) on a total operating income of Rs. 375.4 crore as against net profit of Rs. 19.8 crore on a total operating income of Rs. 317.6 crore in FY15.

**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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****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 | - | - | - | 35.00 | CARE BBB+; Stable / CARE A3+ |
| Non-fund-based - LT-Bank Guarantees | - | - | - | 0.95 | CARE BBB+; Stable |
| Fund-based - LT-Buyers Credit | - | - | - | 0.92 | CARE BBB+; Stable |

**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 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 | Date(s) & Rating(s) assigned in 2013-2014 |
| 1. | Fund-based - LT/ ST-CC/Packing Credit | LT/ST | 35.00 | CARE BBB+; Stable / CARE A3+ | - | 1)CARE BBB+ / CARE A3+ (Under Credit Watch) (22-Feb-16)<br>2)CARE BBB+ / CARE A3+ (14-Apr-15) | 1)CARE BBB- / CARE A3 (29-May-14) | 1)CARE BBB- / CARE A3 (24-Mar-14) |
| 2. | Non-fund-based - LT-Bank Guarantees | LT | 0.95 | CARE BBB+; Stable | - | 1)CARE BBB+ (Under Credit Watch) (22-Feb-16)<br>2)CARE BBB+ (14-Apr-15) | 1)CARE BBB- (29-May-14) | 1)CARE BBB- (24-Mar-14) |
| 3. | Fund-based - LT-Buyers Credit | LT | 0.92 | CARE BBB+; Stable | - | 1)CARE BBB+ (Under Credit Watch) (22-Feb-16)<br>2)CARE BBB+ (14-Apr-15) | - | - |

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CIN - L67190MH1993PLC071691