Axiscades Engineering Technologies Limited

August 21, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long term Bank Facilities	40.45	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Revised from CARE BBB+; Stable (Triple B; Outlook: Stable)**
Long/ Short term Bank Facilities	40.00	**CARE BBB+; Negative/ CARE A3+ (Triple B Plus; Outlook: Negative/ A Three Plus)**	**Revised from CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**
Short term Bank Facilities	6.30	**CARE A3+ (A Three Plus)**	**Re-affirmed**
Total	**86.75 (Rs. Eighty Six crore and Seventy Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of the bank facilities of Axiscades Engineering Technologies Limited (ACET) continues to derive strength from its established operational track record of ACET in the engineering design services with fair diversification across sectors and satisfactory liquidity levels with adequate level of cash and bank balance. These rating strengths are partially offset by lower than expected performance of acquired business viz. Axiscades Aerospace and Technologies Limited (ACAT) and Mistral Solutions Private Limited (Mistral) resulting in declining PBDIT margin. The ratings are also tempered by customer concentration risk and intense competition in the Engineering Research and Design (ERD) segment, company's exposure to end user industry's performance and susceptibility to foreign currency fluctuation risks.

Outlook: Negative. The negative outlook reflects likely deterioration in financial risk profile of ACET owing to weak business environment and subdued performance of acquired business which has also led to company incurring losses in Q4FY18 and Q1FY19. 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 ACAT and Mistral.

Detailed description of the key rating drivers

Company has posted net losses of Rs. 12.5 crore in Q4FY18 and Rs. 7.9 crore in Q1FY19 on back of weak business environment and subdued performance of acquired businesses viz. ACAT and Mistral. While ACAT acquisition was done largely from financial perspective to support ACAT, Mistral's acquisition was expected to offer synergy in terms of technology offerings and benefit from diverse customers. However, subdued performance of these business along with write off of receivables, non-cash expenses due to Mistral's acquisition, notional forex losses due to restatement of foreign currency loan has led to ACET incurring losses. However the comfort is drawn from satisfactory cash and bank balance of the company and lower repayments of loan in FY19. Recovery of performance of these businesses is critical for ACET and would be key rating monitorable.

The previous detailed press release of the company is available here.

The detailed rationale of the company is available at www.careratings.com.

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

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios- Non-Financial Sector

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

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 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.

Brief Financials (Rs. crore)	FY17(A)	FY18(UA)*
Total operating income	490.0	519.1
PBILDT	44.0	32.7
PAT	13.6	(7.8)
Overall gearing (times)	0.4	0.52
Interest coverage (times)	3.67	2.38

**Abridged financials, 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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****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	-	-	-	40.00	CARE BBB+; Negative / CARE A3+
Non-fund-based - LT-Bank Guarantees	-	-	-	2.95	CARE BBB+; Negative
Fund-based - LT-Term Loan	-	-	September 2022	37.50	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	40.00	CARE BBB+; Negative / CARE A3+	-	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+; 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	37.50	CARE BBB+; Negative	-	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+ (05-Jan-18)	-	-

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