Axiscades Engineering Technologies Limited

November 3, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	28.06 (Reduced from 33.42)	CARE BBB (Under Credit watch with Developing Implications) (Triple B) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	65.00	CARE BBB / CARE A3 (Under Credit watch with Developing Implications) (Triple B / A Three) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	6.30	CARE A3 (Under Credit watch with Developing Implications) (A Three) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Facilities	99.36 (Rs. Ninety-Nine Crore and Thirty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of Axiscades Engineering Technologies Ltd (ACET) are placed on credit watch with developing implications considering the ongoing arbitration proceedings between ACET and Mistral Solutions Private Ltd (MSPL) due to delay in Phase 2 of the acquisition of MSPL along with its subsidiaries (referred as ‘Mistral’). The delay is due to merger application pending with NCLT Mumbai for which ACET believes Explosoft Tech Solutions Private Ltd (‘Explosoft’, one of the shareholder of Mistral) did not take steps that are required for approval of the merger. Both the parties have sought compensation from each other while the matter is pending at Arbitral Tribunal. The outcome of proceedings and its likely impact on ACET’s credit profile is not yet clear. CARE will continue to monitor the said development and will take appropriate action once the clarity emerges on above event.

The ratings continues to factors in established operational track record of the company with marquee customers supported by fair diversification across sectors and geographies. The rating also positively factor in the improvement in financial performance of the company in FY20 with ACET reporting healthy profits after posting net losses during FY18 and FY19. However, these rating strengths are partially offset by likely moderation in financial risk profile of ACET in FY21 due to impact of Covid-19 on end user industry’s operational performance and investment climate especially in the aerospace segment which forms ~30% ACET’s turnover. The ratings are also constrained by intense competition in the Engineering Research and Design (ERD) segment, customer concentration risk and susceptibility to foreign currency fluctuation risks.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in overall gearing to below 0.50x on sustained basis.
- Recovery in business from aerospace vertical and sustenance of improved operations of Axiscades Aerospace and Technologies P Ltd. (ACAT).

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration of overall gearing to 1.25x.
- Any adverse ruling in the ongoing arbitration with Mistral leading to ACET availing additional debt.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in financial risk profile of company with company turning profitable in FY20 after posting losses for two consecutive years but moderation expected in FY21

Financial risk profile of the company witnessed improvement during FY20 with company posting net profit of Rs.30.3 crore in FY20 after posting net loss of Rs.7.81 crore and 7.67 crore in FY18 and FY19 respectively on consolidated level. Revenue of the ACET (on consol. basis) grew by 11.1% to Rs.679.2 Cr from Rs.611.4 Cr. The same is majorly on account of improvement in

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

performance of one of its subsidiary, ACAT and also the cost containment measures taken at entire group level. 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.
In Q1FY21, due to disruption in operations of the company caused by Covid19 led lockdowns across the globe, company's revenues from its commercial aerospace segment was severely affected and company has posted a revenue of Rs.110.6 Cr with a net loss of Rs.0.85 Cr. However, on consolidated level, the free cash and bank balances improved to Rs.65.3 Cr as of June 30, 2020 (Rs.47.1 Cr as of March 31, 2020) on account of realization of receivables.

Established operational track record supported by marquee customers
ACET commenced operation from 1990 and has more than two decades of track record of satisfactory operation. Satisfactory execution of the awarded projects enabled the company to establish its credentials, in acquiring marquee customers over the years and repeat orders from them, which has been core strength of the company. Company has acquired these customers over the years and the same are expected to continue considering the established relationship with 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 39.5%, heavy engineering is the largest part of ACET business followed by Aerospace – 31.1%, Strategic Tech solutions – 25.4% and Automotive and Industrial Products – 2.7% while remaining in renewable energy segment in FY20. In terms of geography too, revenues are well diversified around Europe, North America and Asia Pacific.

Key Rating Weaknesses
Ongoing arbitration proceeding between ACET and Mistral and its likely impact
In FY17, ACET had entered into a Share Purchase Agreement (SPA) with Mistral to acquire 100% stake in Mistral Solutions Private Limited along with its subsidiaries in a phased manner. During Phase-I, ACET has acquired 43.38% stake in Mistral at cost of ~Rs.70 crore which was entirely funded by term debt. The balance stake was expected to be acquired in a phased manner within a timeline of five years. In Phase-II, ACET would acquire 44.62% equity stake through shares allotment and the balance stake in Phase-III and IV. The phase-II acquisition has been delayed due to delay in approval of merger application filed Explosoft Tech Solutions Private Ltd (one of the shareholders of Mistral) with NCLT Mumbai. In this regard, ACET has initiated arbitration proceedings against Mistral and its shareholders and made a claim for damages to the tune of Rs.117.8 Cr for failure of Explosoft to comply with their obligations under certain definitive agreements entered as a part of Phase-2 of the transaction. In counter claim, the shareholders of Mistral demanded for discharge of purchase consideration of Phase-II of SPA aggregating Rs.72.13 Cr along with interest of Rs.14.31 on account of delay in payment of the aforesaid purchase consideration as per SPA. This matter is pending with the arbitral tribunal which asked both the parties to maintain the status quo related to the merger till further orders.
The outcome of arbitration proceedings in favor of Mistral, requiring ACET to complete the phase 2 acquisition majorly funding out of debt may impact its credit profile and is a key rating monitorable.

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

Customer concentration risk
Around 50% of ACET's revenues (on consolidated basis) during FY19 & FY20 were from its top 3 clients. Hence, company's performance largely depends upon the performance of these clients. With air travel restrictions, lockdowns announced by various countries across the globe to contain the spread of Covid19, commercial aerospace segment got severely affected which may subsequently impact the revenues of ACET in FY21.

Liquidity: Adequate
On consolidated level, Company's liquidity stands adequate with free cash and bank balance of Rs.65.3 crore as of June 30, 2020 against debt servicing of around Rs.21 Cr for FY21. On standalone level, ACET and ACAT had free cash and bank balances of Rs.25.89 Cr and Rs.20.45 Cr respectively as of June 30, 2020. The liquidity is expected to be sufficient for debt servicing in case of any unforeseen events caused due to Covid19 spread and market downturns in FY21. Also, average WC utilization level of the company stood moderate at 68.40% for the past 12 months ended August 31, 2020. ACET had availed the moratorium as a part of RBI's Covid-19 package from March to August 2020 for deferment of interest and principal payments related to term loan facilities and interest payments related to cash credit facility.

Analytical approach: ACET has established subsidiaries in various geographies and acts as on-shore centers and the business model entails a high amount of integration of ACET with its subsidiaries and therefore the consolidated approach is taken to analyze the credit profile of ACET.
The consolidated financials of ACET considered for analysis comprise of full-consolidation of all its below mentioned subsidiaries/Step-down subsidiaries as per its audited annual report for FY20.

Sr. No.	Name of Company	% of Shareholding 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.	Mistral Solutions Inc. (subsidiary of MSPL)	100% shares held by MSPL
7.	Mistral Solutions Pte Limited (subsidiary of MSPL) (MSP)	100% shares held by MSPL
8.	Cades Studec Technologies (India) Private Limited ('Studec')	76%
9.	AXISCADES Aerospace & Technologies Private Limited ('ACAT')	100%
10.	AXISCADES Aerospace Infrastructure Private Limited, subsidiary of ACAT ('AAIPL')	100%
11.	Enertec Controls Limited, subsidiary of ACAT ('Enertec')	100%
12.	Mistral Solutions Private Limited (MSPL)	43%
13.	Aero Electronics Private Limited (subsidiary of MSPL) (AEPL)	100% shares held by MSPL
14.	Mistral Technologies Private Limited (subsidiary of MSPL) (MTPL)	100% shares held by MSPL

CARE has also analyzed the scenario of de-consolidating Mistral (and its subsidiaries') financials due to ongoing merger issues.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's methodology for service sector companies
CARE's methodology for Short-term Instruments
CARE's policy on Default Recognition
Financial Ratios-Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Consolidation
Rating Methodology: Notching by 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	611.43	679.16
PBILDT	17.38	98.67
PAT	-7.67	30.30
Overall gearing (times)	0.93	0.89
Interest coverage (times)	0.67	3.40

A: Audited; *goodwill arising from acquisition of Mistral to the extent of Rs.125.83 Cr has been deducted from networth considering the ongoing dispute between ACET and Mistral.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

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 / CARE A3 (Under Credit watch with Developing Implications)
Non-fund-based - LT-Bank Guarantees	-	-	-	-	2.95	CARE BBB (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	-	March 2023	25.11	CARE BBB (Under Credit watch with Developing Implications)
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	-	6.30	CARE A3 (Under Credit watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	65.00	CARE BBB / CARE A3 (Under Credit watch with Developing Implications)	-	1)CARE BBB; Stable / CARE A3 (03-Jan-20)	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)
2.	Non-fund-based - LT-Bank Guarantees	LT	2.95	CARE BBB (Under Credit watch with Developing Implications)	-	1)CARE BBB; Stable (03-Jan-20)	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)
3.	Fund-based - LT-Term Loan	LT	25.11	CARE BBB (Under Credit watch with Developing Implications)	-	1)CARE BBB; Stable (03-Jan-20)	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)

4.	Non-fund-based - ST-Loan Equivalent Risk	ST	6.30	CARE A3 (Under Credit watch with Developing Implications)	-	1)CARE A3 (03-Jan-20)	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	Total debt/TNW <=1.5
	Total debt/EBITDA <= 3.0
	DSCR >= 1.25x
	DSRA: 3 months' principal and interest
B. Non financial covenants	Min. Shareholding: min.51% shareholding of Jupiter capital and its group to be maintained.
	Any acquisition will require lender's approval
	Pledge of shares to extent of 1.40x of the FCTL for the exposure of both of the companies ACET & ACAT.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Non-fund-based - LT-Bank Guarantees	Simple
4.	Non-fund-based - ST-Loan Equivalent Risk	Simple

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

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About CARE Ratings:

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