July 02, 2021

Ajax Engineering Private Limited: Ratings reaffirmed and outlook revised to Stable; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	22.00	32.00	[ICRA]AA reaffirmed/assigned; Outlook revised to Stable from Negative
Long term – Unallocated	-	5.00	
Short-term – Non-Fund Based	7.00	7.00	[ICRA]A1+; reaffirmed
Total	**29.00**	**44.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook on the long-term rating to 'Stable' follows the revival in the domestic Construction Equipment (CE) industry over the last few quarters, translating into robust volume ramp-up for Ajax Engineering Private Limited (AEPL) in FY2021. While industry volumes were adversely impacted in Q1FY2021, following the lockdown, it witnessed revival from July 2020, supported by a pickup in demand across segments such as highways, rural roads, infrastructure and agriculture. The demand prospect for the concreting equipment industry is likely to remain favourable in the medium term, given the Central and various state governments' focus on infrastructure development. Though the second wave of the pandemic is likely to result in subdued sales in Q1 of FY2022 as well, the underlying demand drivers are expected to be strong which should support recovery in sales thereafter.

The ratings continue to draw comfort from AEPL's well established presence in the construction equipment industry, strong reputation, extensive distribution network, dominant market share in the flagship product—self-loading mobile concrete mixers (SLCM)—and extensive experience of its promoters. AEPL has a strong financial profile marked by healthy profitability, comfortable capital structure, robust coverage metrics and strong liquidity supported by cash and liquid investments of Rs 228.4 crore as on March 31, 2021.

The ratings, however, continue to be constrained by AEPL's high dependence on its flagship product. The sales of other concreting equipment products are yet to pick up as the company's non-SLCM products face stiff competition from other large players. The ratings are also constrained by the company's vulnerability to cyclical downturns in economy and infrastructure project spends. Besides, the company's profit margins are vulnerable to adverse fluctuations in input costs. While, the company has taken sequential price hikes to protect its margins, transition to CEV-IV emission norms will intensify cost side pressures. Therefore, the company's ability to timely pass on the increase in pricing without impacting demand, remains a key challenge.

Key rating drivers and their description

Credit strengths

Dominant position in SLCM market - The company has a significant market share among the organised players in the SLCM market. The flagship product of the company, SLCM, enjoys good reputation in the industry because of the superior product quality, its established brand name and the extensive distribution network. This has helped the company in securing repeat orders from existing clients.

Comfortable capital structure and strong coverage indicators - The company has a strong financial profile, with comfortable capital structure and strong coverage indicators as indicated by DSCR of 91.4 times and interest coverage of 120.8 times in FY2021. The management has remained conservative with its borrowings, which is reflected in the consistently low leveraging of the company coupled with a high cash and liquid investments amounting to Rs. 228.4 crore as on March 31, 2021.

Credit challenges

Portfolio concentrated on SLCMs - The company's product range is concentrated, with more than 80% of the company's revenue coming from sales of SLCMs. Nonetheless, ICRA acknowledges that the dependence on the contribution of SLCMs has reduced by 9% over past two years. Further, the ongoing capex towards Slip Form Concrete Pavers and Self-Propelled Boom Pumps will lead to further diversification of revenue in future.

Vulnerability of operations to cyclical downturn in economy; Covid-19 pandemic remains a concern - The company's sales are predominantly to the construction sector, which in turn is dependent on the government infrastructure spending and capex from the private sector. While the CE industry has faced headwinds in the past due to weak infrastructure activity and liquidity challenges, in recent times the operations were disrupted by the pandemic and its subsequent wave. Nevertheless, the GoI's impetus on its 'Build India' programme to counter the economic headwinds is expected to support demand prospects.

Profit margins vulnerable to adverse fluctuations in input costs – Key inputs costs such as steel, oxygen, precision tools and international freight costs have seen steep rise in recent times. While, the company has taken sequential price hikes to protect its margins, additional price hike is required. Further, with transition to CEV-IV emission norm, the price of the new compliant equipment also warrants higher prices. Therefore, the company's ability to timely pass on the increase in pricing without impacting demand, remains a key challenge.

Liquidity position: Strong

AEPL's liquidity is expected to remain Strong, supported by its healthy cash accruals, absence of any long-term debt repayments, cash and liquid investments of Rs. 228.4 crore as on March 31, 2021 and ample cushion in working capital limits (average utilisation of 2% utilisation from April 2020 to March 2021). Further, the company's substantial capex commitments in the near-to-medium term are expected to be met entirely through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade AEPL's rating if the company demonstrates greater product diversification accompanied by substantial improvement in revenues while sustaining its current profitability, leverage and liquidity levels.

Negative factors – Negative pressure on AEPL's rating could arise if there is a substantial pressure on top line and profitability due to downturns in the CE industry.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Bengaluru-based AEPL (formerly known as Ajax Fiori Engineering (India) Pvt. Ltd) manufactures equipment for the construction industry with a focus on concrete equipment such as the self-loading mobile concrete mixers (SLCMs), pan mixers, radius lift arm batching plants, bin type concrete batching plants, site dumpers, concrete pumps, concrete boom pumps and transit mixers. The company's equipment are used for concreting operations, in roads and bridges project, building construction, canal lining, dam and other infrastructure construction projects. In FY2020, Kedaara Capital bought a 6.5% stake in the company, with the remaining shareholding by the families of the promoters. The company is undertaking capex to diversify into Slip Form Concrete Pavers and Self-Propelled Boom Pumps, including expansion of existing facilities at Dodaballapur and Gauribidanur in Karnataka.

Key financial indicators (audited)

AEPL Standalone	FY2020	FY2021*
Operating Income (Rs. crore)	754.6	809.9
PAT (Rs. crore)	99.8	93.0
OPBDIT/OI (%)	17.8%	14.9%
PAT/OI (%)	13.2%	11.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5
Total Debt/OPBDIT (times)	0.1	0.0
Interest Coverage (times)	211.0	120.8

*Source: AEPL, ICRA research; *FY2021 financials are provisional and unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 02, 2021	May 18, 2020	Jul 19, 2019	May 18, 2018
1	Cash Credit	Long term	32.00	--	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund Based Limits	Short term	7.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated Limits	Long term	5.00	--	[ICRA]AA (Stable)	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long term – Unallocated	Not Applicable
Short-term – Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	32.00	[ICRA]AA (Stable)
NA	Non-fund based	NA	NA	NA	7.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	5.00	[ICRA]AA (Stable)

Source: *AEPL*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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