July 01, 2022

Ajax Engineering Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook on the long-term rating to Negative follows the consistent decline in the sales volume of Ajax Engineering Private Limited's (AEPL) key product, self-loading concrete mixer (SLCM), which accounted for over 75% of its past revenues. The sales volume of SLCMs witnessed around 50% reduction to 1,863 units in FY2022 from its previous high 3,650 units in FY2019, leading to moderation in scale to Rs. 763 crore in FY2022 from Rs. 1,155 crore in FY2019. Increased competition in the SLCM segment has constrained its pricing flexibility, which along with input cost pressure and negative operating leverage resulted in a sharp correction in its operation margins. Consequently, the operating profitability moderated by 550 bps to 12.0% in FY2022 (based on provisional financials) compared to 17-18% over the past two years. While the management anticipates an improvement in the margin, full recovery to previous highs is unlikely over the medium term. Going forward, the company's ability to diversify its product profile along with margin expansion remains crucial from the credit perspective, given its high dependence on a single segment. ICRA notes that AEPL continues to enjoy a market leadership position in the SLCM segment, with over 70% share in the domestic market. Further, the company has been diversifying its product profile to other products in the concreting segment (non-SLCM products), though it comprised only 13% of revenues in FY2022 (compared to 6% in FY2021) and faces stiff competition from other large established players in the non-SLCM product segment. ICRA notes that company's scale of operations remains modest compared to other construction equipment (CE) OEMs in the similar rating level. The ratings are constrained by its vulnerability to the cyclical downturns in economy as well as infrastructure project spends and the susceptibility of its profitability to adverse fluctuations in input costs.

The ratings, however, draw comfort from AEPL's well-established presence in the CE industry, strong brand recognition, extensive distribution network and dominant market share in the flagship product, SLCM. It has a strong financial profile marked by comfortable capital structure, which is supported by a strong net worth and negligible debt levels in FY2022, resulting in robust coverage metrics. Its credit profile is further aided by free cash and liquid investments of Rs. 319 crore as on March 31, 2022, majority of which are invested in liquid and short-term debt mutual funds. In absence of any major capex and investment plans, the company is likely to remain net debt free and maintain cash & liquid investments of over Rs. 300 crore on a sustained basis.

Key rating drivers and their description

Credit strengths

Established track record in CE industry with dominant position in SLCM segment - AEPL has a track record of almost three decades in the domestic CE industry and enjoys over 70% share in the organised market in the SLCM segment. Its flagship product, 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 the existing clients.

Low leverage and robust coverage indicators - The company reported a high net worth of Rs. 580 crore and minimal debt as on March 31, 2022. This has resulted in a comfortable capital structure and strong coverage indicators, as evident by Total Debt/OPBDITA of 0.1 times, Total Outside Liabilities/Tangible Net Worth of 0.3 times and DSCR of 108.8 times in FY2022 (based on provisional financials).

Strong liquidity - AEPL's credit profile is strengthened by high free cash and liquid investments worth Rs. 319 crore as on March 31, 2022. In absence of major capex and investment plans, the company is likely to remain net debt free and maintain cash and liquid investments of over Rs. 300 crore on a sustained basis.

Credit challenges

High product concentration with declining volumes in SLCM segment - The company's product range is concentrated, with over 75% revenues derived from SLCMs. Further, the sales volume for the SLCM segment declined to 1,863 units in FY2022 from 3,650 units in FY2019. This has resulted in a substantial reduction in AEPL's operating income to Rs. 763 crore in FY2022 from Rs. 1,155 crore in FY2019. While the company has been increasing its impetus on products like batching plants, transit mixers and boom pumps, the same contributed only 13% of the revenues in FY2022 (compared to 6% in FY2021). Thus, diversification into other products and revival in the market share of SLCM remains the key for a scale up of its operations going forward.

Vulnerability of profitability to adverse fluctuations in input costs and intense competition - Key input costs such as steel and other input components, along with freight costs have seen a steep rise over the past few quarters. Further, with transition to CEV IV emission norm, the price of the new compliant equipment has also increased. The inability to fully pass on the input price, amid intense competition from its key competitors such as Schwing Stetter India and KYB Conmat, has moderated its operating profitability by 530 bps to 12.0% in FY2022 (provisional financials) against 17-18% over the past two years, and a historical high of 25-27% during FY2017-FY2018. Therefore, the company's ability to timely pass on the increase in pricing without impacting demand, remains a key challenge.

Vulnerability of operations to cyclical downturn in economy - The company's sales are predominantly to the real estate and infrastructure sector, which relies on the Government's infrastructure spending and capex from the private sector.

Liquidity position: Strong

AEPL's liquidity is expected to remain strong in absence of any long-term debt repayments, free cash and liquid investments of Rs. 319 crore as on March 31, 2022 and cushion in working capital limits. Further, its capex plans in the near to medium term are expected to be met mainly through internal accruals. In absence of any major capex and investment plans, the company is likely to remain net debt free, while maintaining free cash and liquid investments of over Rs. 300 crore on a sustained basis.

Rating sensitivities

Positive factors - The outlook will be revised to Stable in case the company reports a material improvement in its scale of operations and operating profitability, while maintaining conservative leverage and strong liquidity.

Negative factors - Negative pressure on AEPL's ratings could arise if there is a deterioration in the market share or any further moderation in the SLCM volumes, leading to sustained pressure on the revenues and/or profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Equipment
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financials

About the company

Bengaluru-based AEPL (formerly known as Ajax Fiori Engineering (India) Pvt Ltd) manufactures construction equipment, mainly concrete equipment such as SLCMs, pan mixers, radius lift arm batching plants, bin type concrete batching plants, site dumpers, concrete pumps, concrete boom pumps and transit mixers. These 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, while the rest is held by the promoters' families. AEPL is undertaking capex to diversify into slip form concrete pavers and self-propelled boom pumps, including expansion of its existing facilities at Dodaballapur and Gauribidanur in Karnataka.

Key financial indicators

Standalone	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	754.6	741.7	764.1
PAT (Rs. crore)	99.8	97.4	68.1
OPBDIT/OI (%)	17.8%	17.4%	12.0%
PAT/OI (%)	13.2%	13.1%	8.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4	0.3
Total Debt/OPBDIT (times)	0.1	0.0	0.1
Interest Coverage (times)	211.0	144.2	157.0

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional financials*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on Jul 1, 2022	Date & Rating in FY2022 Jul 2, 2021	Date & Rating in FY2021 May 18, 2020	Date & Rating in FY2020 Jul 19, 2019
1	Fund based - Cash Credit	Long-term	32.00	NA	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
2	Non-fund based Limits	Short-term	7.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated Limits	Long-term	5.00	NA	[ICRA]AA (Negative)	[ICRA]AA (Stable)	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based Cash Credit	Simple
Short-term - Non-fund Based Facilities	Very Simple
Long-term - Unallocated Limits	Not applicable

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based - Cash Credit	NA	NA	NA	32.00	[ICRA]AA (Negative)
NA	Non-fund Based Facilities	NA	NA	NA	7.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	5.00	[ICRA]AA (Negative)

Source: Ajax Engineering Private Limited

Annexure II: List of entities considered for consolidated analysis: Not applicable

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