

October 14, 2022

Ajax Engineering Private Limited: Ratings reaffirmed

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 (Negative) reaffirmed
Non-fund based facilities	7.00	7.00	[ICRA]A1+ reaffirmed
Unallocated limits	5.00	-	-
Total	44.00	39.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation draws comfort from Ajax Engineering Private Limited's (AEPL) well-established presence in the Construction Equipment (CE) industry with a strong brand recognition, extensive distribution network and dominant market share in the flagship product, self-loading concrete mixer (SLCM), which accounted for over 75% of its revenues. AEPL continues to enjoy a market leadership position in the SLCM segment, with over 70% share in the domestic market, though its share declined from 80%+ levels in the past. The ratings favourably factor in AEPL's strong financial profile, marked by a 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. 270 crore as on August 30, 2022, most of which are invested in fixed deposits, short-term debt and liquid mutual funds. In absence of any 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.

ICRA, however, notes that the company's scale of operations remains modest compared to other CE original equipment manufacturers (OEMs) in the similar rating level. The sales volume of AEPL's key product (SLCM) witnessed around 50% reduction, leading to moderation in scale. 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. While the management anticipates an improvement in the margin with softening in commodity inflation, full recovery to previous highs is unlikely over the medium term. Nonetheless, the company has been diversifying its product profile to other products in the concreting segment (non-SLCM products), though it comprised only 10% of revenues in 5M FY2023 and faces stiff competition from other large established players in the non-SLCM product segment. 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. 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 Negative outlook on the long-term rating reflects ICRA's expectation that AEPL's credit profile might come under pressure over the near to medium term, considering the steady decline in the sales volume of its flagship product (SLCM), amid increased competition and input cost pressure, which is expected to result in a modest operation profitability.

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, though its share has declined from 80%+ levels in the past. 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. 578 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 138.9 times in FY2022.

Strong liquidity - AEPL's credit profile is strengthened by high free cash and liquid investments worth Rs. 270 crore as on August 30, 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

Relatively moderate scale of operations with high product concentration – AEPL has a modest scale of operations (operating income was Rs. 763 crore in FY2022 against Rs. 1,155 crore in FY2019) compared to other CE OEMs in the similar rating level. Further, the company's product range is concentrated, with over 75% revenues derived from SLCMs. The sales volume of SLCM witnessed around 50% reduction to 1,863 units in FY2022 from its previous high 3,650 units in FY2019. However, the same has improved in the recent past, resulting in a growth in revenues to Rs. 329 crore during 5M FY2023 (compared to around Rs. 165-170 crore during the similar period in the previous year). The company has been increasing its impetus on products like batching plants, transit mixers and boom pumps. Nevertheless, the same contributed only 10% of the revenues in 5M FY2023. 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 over 500 bps to 11.9% in FY2022 against 17-18% over the past two years, and a historical high of 25-27% during FY2017-FY2018. Nonetheless, with softening in commodity inflation in the recent past and periodical price revisions undertaken, the same is expected to improve by 100-200 bps in the current fiscal. However, the company's ability to timely pass on the pricing fluctuations without impacting the 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. 270 crore as on August 30, 2022 and cushion in working capital limits. Further, its capex plans in the near to medium term are anticipated 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 if the company reports a material improvement in its scale of operations and operating profitability, while maintaining a 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 its 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 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	FY2021	FY2022
Operating income (Rs. crore)	741.7	763.3
PAT (Rs. crore)	97.4	66.2
OPBDIT/OI (%)	17.4%	11.9%
PAT/OI (%)	13.1%	8.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	144.2	215.1

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

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		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Oct 14, 2022	Jul 1, 2022			
1 Fund-based - Cash credit	Long-term	32.00	NA	[ICRA]AA (Negative)	[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+	[ICRA]A1+
3 Unallocated limits	Long-term	-	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

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+

Source: Ajax Engineering Private Limited

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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 22 6114 3414

ashish.modani@icraindia.com

Mayank Agrawal

+91 79 4027 1514

mayank.agrawal@icraindia.com

Anurag Bhootra

+91 124 4545 852

anurag.bhootra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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