September 07, 2017

Ajax Fiori Engineering (India) Pvt. Ltd.

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Cash Credit– Long Term	15.0	[ICRA]AA- Reaffirmed; Outlook revised from Stable to Positive
Term Loan	0.00 (reduced from 1.14)	
Proposed Term Loan- Long Term	1.14 (increased from 0.00)	
Non Fund Based- Short Term	5.32	[ICRA]A1+; Reaffirmed
Total	**21.46**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA-(pronounced ICRA double A minus) assigned to the Rs. 16.14 crore long term limits and the short-term rating of [ICRA]A1+ (pronounced ICRA A plus) to the Rs. 5.32 crore non-fund based bank facilities of Ajax Fiori Engineering (India) Private Limited (AFEPL, the company)[1]. The outlook on the long-term rating has been revised from *stable* to *positive*.

Rationale

The outlook on the company has been revised from stable to positive due to strong growth in revenues, improvement in profitability indicators and favourable industry outlook.

The ratings continue to take into account AFEPL's long standing presence, the rich experience of its promoters and the strong reputation it enjoys in the domestic construction equipment industry. AFEPL enjoys benefits of an established market position in the industry and a strong brand, which have allowed it to translate the demand revival in the construction equipment industry to a significant growth in turnover and profit margins.

During FY2017, the company recorded a 54% increase in operating income largely supported by an increase in sales volumes, on the back of an upswing in concrete equipment demand. Improved economies of scale coupled with and indigenous sourcing of critical components have resulted in improvement in operating profit margins from 20.4% in FY2016 to 25.5% in FY2017. The ratings favourably factor in its strong financial profile characterised by substantial liquid investments, negligible debt and robust coverage indicators in addition to undrawn credit lines.

Given AFEPL's comfortable cash flows and liquidity profile supported by liquid investments and cash reserves of Rs 110 crore as on 31st August 2017, the company is capable of funding its planned growth and related capital expenditure without significantly leveraging its balance sheet. These apart, the ratings continue to draw comfort from the AFEPL's strong in-house capabilities including design, procurement and distribution network. The demand prospects for the concreting equipment industry are likely to

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

remain favourable in the medium term given the central and various state governments' focus on infrastructure which has resulted in pick-up in road construction and irrigation projects since H2 FY2016.

The ratings, however, continue to be constrained by AFEEPL's dependence on a few product lines. The company made a huge dividend payout of Rs 170 crore (including tax on dividend) in FY2017, the proceeds of which were utilised by the promoters to buy 30% stake in the company from Fiori S.P.A, which caused a substantial reduction in the internal accruals as well as the net worth of the company. Besides, the strengths of the company are tempered by the vulnerability of its revenues to cyclical downturns in the economy given its dependence on the construction and real estate industry and the susceptibility of its margins to raw material.

AFEPL's ability to diversify its product portfolio, achieve greater market penetration and sustain its growth trajectory and profitability, apart from the extent of capex and acquisitions undertaken would be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Dominant share in the Self Loading Mobile Concrete Mixer (SLCM) –** The company has a significant market share among the organised players in the SLCM segment.
- **Established brand and product quality –** The company has a good track record of operations in concrete equipment industry. AFEPL's primary product - SLCM, enjoys a good reputation across construction industry players. Established brand and product quality result in repeat orders from existing clients.
- **Strong revenue growth and margin expansion -** Sales growth has been robust with strong margin growth in FY2017 with pickup in demand. The company was able to maintain sales and margins even in subdued market conditions during CY2012-CY2014 wherein the other Construction Equipment players witnessed sharp dip in sales and margins.
- **Strong financial profile** marked by strong profitability indicators and comfortable capital structure as indicated by low gearing of 0.07 times (March 31, 2017). The management has remained conservative in its borrowings in the past which is reflected in the consistently low leveraging of the company coupled with a high cash and liquid investments amounting to Rs 78 crore as on 31st March 2017 (Rs.110 crore as on 31^{st} August 2017).
- **Healthy construction order inflows and execution in roads & bridges, irrigation and railways results in good demand for concreting equipment -** The strong sales volumes growth in concreting equipment in the recent past is on account of the demand for new concreting equipment on the back of higher infrastructure spend in roads, irrigation and railways. Healthy outstanding orderbook for contracting firms in these segments and improved execution is expected to result in continued strong growth over the near to medium term.

Credit weaknesses

- **High product concentration -** The company's product range is primarily limited to batching plants, concrete pumps, pan mixers, SLCM and transit mixers, with SLCM being the dominant category. Nevertheless proposed new product launches are expected to mitigate product concentration risks to an extent.
- Exposed to raw material, particularly steel price risk
- **Slowdown in construction sector could adversely impact the sales and margins of AFEPL -** The company is vulnerable to cyclical downturn in the economy. The sales of the company are predominantly to the construction sector which in turn is dependent on the government infrastructure spending.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Construction Equipment Manufacturers

About the company:

Ajax Fiori Engineering (India) Private Limited, located in Bangalore, manufactures a wide range of equipment for the construction industry. The company manufactures a line of products in the construction equipment domain including self loading mobile concrete mixers, pan mixers, radius lift arm batching plants, site dumpers, bin type concrete batching plants and transit mixers. Ajax Fiori's machinery is used for concreting operations, in roads and bridges project, building construction, canal lining, dam and other infrastructure construction projects, to name a few. Over the years, AEFPL has developed strong in-house manufacturing capabilities supported by tie-ups with several foreign construction equipment companies such as Eurostar Italy, ORU and Fiori S.P.A. and Junjin S. Korea.There has been a change in shareholding pattern of the company in May'2017 with the promoters of the company purchasing 30% of the 40% shares held by Fiori S.P.A group.

Key Financial Indicators

	FY2016	FY2017 Unaudited
Operating Income (Rs. crore)	438.98	675.86
PAT (Rs. crore)	59.25	117.76
OPBDIT/ OI (%)	20.40%	25.51%
RoCE (%)	51.02%	101.43%
Total Debt/ TNW (times)	0.04	0.07
Total Debt/ OPBDIT (times)	0.09	0.06
Interest coverage (times)	77.05	319.62
NWC/ OI (%)	9	2

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	**Instrument**	**Current Rating (FY2018)**			**Chronology of Ratings**		
		Type	**Amount Rated (Rs. crore)**	**September 2017**	**FY2017**	**FY2016**	**FY2015**
					Sept 2016	**July 2015**	**Aug 2014**
1	Cash Credit	Long Term	15.00	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Proposed Term Loan	Long Term	1.14	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Non Fund Based Limits	Short Term	5.32	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	15.00	[ICRA]AA-(Positive)
-	Proposed Loan	-	-	-	1.14	[ICRA]AA-(Positive)
-	Non Fund Based Limits	-	-	-	5.32	[ICRA]A1+

Source: Ajax Fiori Engineering (India) Private Limited

Contact Details

Analyst Contacts

K. Ravichandran
+91 44 45964301
ravichandran@icraindia.com

Shubham Jain
+91 124 4545306
shuhamj@icraindia.com

Mathew Eranat
+91 80 43326415
mathew.eranat@icraindia.com

Adarsh Reddy
080-4332-6405
adarsh.reddy@icraindia.com

Shivani Sahoo
080-4332-6406
shivani.sahoo@icraindia.com

Relationship Contact
Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	