July 19, 2019

Ajax Engineering Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	50.00	0.00	-
Long-term Cash Credit	15.00	22.00	[ICRA]AA (Stable); Reaffirmed
Long-term Unallocated	1.14	0.00	-
Short-term Non-fund Based	5.32	7.00	[ICRA]A1+; Reaffirmed
Total	**71.46**	**29.00**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings of Ajax Engineering Private Limited (AEPL, the company) favourably factors in the established brand name of Ajax in the construction equipment industry, its extensive distribution network and the dominant market share of its flagship product, the self-loading mobile concrete mixers (SLCM). The ratings also take into account the company's strong financial profile, characterised by healthy cash accruals, low debt, robust debt coverage indicators and substantial liquid investments.

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. ICRA notes that the off-take of the company's products have been slower in the first half of CY2019, owing to general slowdown in investments by customers in the construction industry because of the elections. AFEPL's ability to diversify its product portfolio, achieve greater market penetration for its non-SLCM products and sustain its growth trajectory and profitability, would be the key rating sensitivity.

Outlook: Stable

The stable outlook reflects ICRA's expectation that AEPL's credit profile will continue to remain healthy, backed by its established position in the construction equipment industry, particularly in SLCM market, and the robust financial profile. The outlook may be revised to Positive if the company achieves greater product diversification, accompanied with increase in revenues and expansion in margins. The outlook many be revised to Negative if the company's financial risk profile is negatively impacted by sustained demand slowdown in the industry or reduction in turnover or profits due to increased competition.

Key rating drivers

Credit strengths

Dominant share in SLCM market – The company has a significant market share among the organised players in the SLCM market. SLCM is the company's flagship product and enjoys good reputation in the industry, evident from its long track record, established brand name and extensive distribution network. This has helped the company to secure repeat orders from existing clients.

Healthy growth in top line in H1FY2019; however, slowdown witnessed in H2FY2019 and Q1FY2020 – During FY2019, the company recorded a growth of 18% in its operating income, post strong growth of 54% and 49% in FY2018. In H1FY2019, the SLCM sales grew by 18%, which declined to 7% in H2FY2019 and subsequently a decline was recorded in Q1FY2020. The decline can be attributed to a general slowdown in investment purchases by the company's key customers, primarily construction contractors, around the time of the elections.

Strong capital structure, notwithstanding large payouts to promoters in past - The company has a strong financial profile marked by healthy profitability indicators and comfortable capital structure, as indicated by low gearing of 0.14 times, DSCR of 7.03 times, Total Debt/OPBITDA of 0.17 times, interest coverage of 14.9 times and ROCE of 75.76% as on March 31, 2019. The management has remained conservative in its borrowings, which is reflected in the company's consistently low leverage indicators and the high cash and liquid investments, amounting to Rs. 107 crore as on March 31, 2019 and Rs 90 crore as on May 31, 2019. The financial profile remains comfortable, notwithstanding the significant amount paid as dividends in the recent past and the amalgamation of certain group companies into itself and the consequent absorption of the debt in these companies.

Credit challenges

High product concentration towards SLCMs - The company's product range is concentrated, as more than 85% of the company's revenue comes from sale of SLCMs. However, the company plans to reduce its dependence on SLCMs and had launched new products for sale in FY2019. However, the company faces stiff competition from other larger players.

Exposure to cyclicality in the demand from construction industry - The company is vulnerable to cyclical downturns in the economy. The sales of the company are predominantly to the construction sector, which in turn is dependent on the government infrastructure spending and capex undertaken by the private sector. The company witnessed an increase in its working capital intensity in FY2020 as slowdown in sales resulted in higher inventory position.

Liquidity position:

The liquidity position of the company is comfortable, with cash and liquid investments of Rs 90 crore as on May 31, 2019. As against its sanctioned working capital limits, the company had utilised only 52% of its limits on an average in FY2019. The company's liquidity position is expected to remain strong in the near to medium term because of the healthy cash accruals, the absence of long-term debt obligations and the moderate capital expenditure plans.

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	Rating is based on standalone financials

About the company:

AEPL (formerly known as Ajax Fiori Engineering (India) Pvt. Ltd, AFEPL) is based out of Bangalore and manufactures equipment for the construction industry, with focus on concrete equipment such as the self-loading mobile concrete mixers (SLCMs). The company also manufactures 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 products are used for concreting operations, in roads and bridges project, building construction, canal lining, dam and other infrastructure construction projects.

During FY2018, the company's promoters purchased the entire stake held in the company by its erstwhile joint venture partner, Fiori SpA, Italy. In March 2019, AFEPL, its holding company Ajax Engineering Pvt Ltd and another group company - Ajax Construtech, were merged and the resultant entity was named as AEPL.

Key financial indicators

	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	979.09	1154.91
PAT (Rs. crore)	174.16	156.26
OPBDIT/OI (%)	27.22%	21.25%
RoCE (%)	110.14%	75.76%
Total Debt/TNW (times)	0.13	0.14
Total Debt/OPBDIT (times)	0.15	0.17
Interest coverage (times)	409.04	14.90

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					Jul 2019	May 2018	Sep 2017	Sep 2016
1	Cash Credit	Long Term	22.00	**0.36**	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	- (reduced from 50.00)	-	-	[ICRA]AA (Stable)	-	-
3	Unallocated	Long Term	- (reduced from 1.14)	-	-	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
4	Non-Fund Based	Short Term	7.00	-	**[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	22.00	[ICRA]AA (Stable)
NA	Non-Fund Based	-	-	-	7.00	[ICRA]A1+

Source: Ajax Engineering Private Limited

Annexure-2: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Shubham Jain
+91-0124-4545306
shubhamj@icraindia.com

Mathew Kurian Eranat
+91-8043326415
mathew.eranat@icraindia.com

Shivani Sahoo
+91-8043326406
shivani.sahoo@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

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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