May 18, 2020

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Cash Credit	22.00	22.00	[ICRA]AA; Reaffirmed, outlook revised to Negative from Stable
Short Term-Non-Fund-Based	7.00	7.00	[ICRA]A1+; Reaffirmed
Total	**29.00**	**29.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook on the long-term rating factors in the ongoing demand slowdown in the domestic construction equipment (CE) industry. Demand disruption during the General Election of May 2019 as well as State Assembly Elections across some states stretched into the rest of FY2020 owing to a tight financing environment and lower infrastructure spending. Consequently, sale volume of Ajax Engineering Private Limited (AEPL)'s flagship product, self-loading mobile concrete mixer (SLCM) declined by 40% during FY2020, impacting the company's top line and profit margins. Further, absence of sales during the last 10 days of FY2020, given the outbreak of Covid-19 pandemic in India has further muted the sale performance in FY2020.

The ongoing lockdown in India is expected to incrementally dampen the demand for construction equipment during FY2021. The infrastructure sector is likely to witness disruption in execution of projects in the near term due to concerns on availability of labour, fiscal pressures on central and state governments and elongation of working capital cycles for contractors. The ratings continue to be constrained by high dependence of AEPL on its flagship product, the SLCM. The sales of other concreting equipment products have begun to pick up in spite of stiff competition from the other large players. The company has enhanced its product portfolio which is expected to improve the revenue diversification in the coming years. Overall, ICRA anticipates the company's revenues to further weaken in the near term in line with the industry trends, and the extent of the same would be a function of various factors such as the duration of the lockdown, the pace at which normal business activity resumes and the quantum of fiscal support by the government.

The ratings, however, continue to draw comfort from AEPL's well established presence in the construction equipment industry, strong reputation, extensive distribution network and dominant market share in the flagship product, SLCM, and extensive experience of its promoters. AEPL has a strong financial profile, marked by healthy profitability, low operating leverage, limited debt and strong liquidity. The company reported cash and liquid investments of Rs 203 crore as on March 31, 2020.

Key rating drivers and their description

Credit strengths

Dominant position in the 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, established brand and 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 low gearing of 0.04 times, Total Debt/OPBITDA of 0.12 times, DSCR of 11.98 times and interest coverage of 162.3 times during FY2020. 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. 203 crore as on March 31, 2020.

Credit challenges

Portfolio concentrated on SLCMs- The company's product range is concentrated with more than 85% of the revenues of the company being accounted by sales of SLCMs. Nonetheless, ICRA acknowledges that the dependence on the contribution of SLCMs has reduced by 6% over past two years.

Vulnerability to cyclical downturns in the CE industry, Covid-19 outbreak raises concerns- The sales of the company are predominantly to the construction sector which in turn is dependent on the government infrastructure spending and capex from the private sector. This sector is closely linked to the macroeconomic conditions in the country and hence, make the company's operations vulnerable to any cyclical slowdown in the economy. With the CE industry facing a slowdown since more than past two years, AEPL witnessed muted demand in FY2020. Moreover, the current Covid-19 outbreak exacerbates the near-term prospects and adds to uncertainties regarding demand pick up.

Decline in revenue and profitability margins in FY2020 and weak outlook for FY2021 - AEPL's top line declined by 34% in FY2020, after posting growth of 18% and 54% in FY2019 and FY2018 respectively, largely due to decrease in the sales volumes with elections, changes in state governments and reduced demand and infrastructure spending in construction industry amidst slowdown in economy. Though the gross margin has remained at the same level as the previous year, there has been a decline in the operating margin in FY2020 from 23% to 17% due to lower revenues. With the prevailing uncertainties around Covid-19, revenue and profitability will remain constrained in FY2021 and the extent of decline will depend on the extent to which normal business activity resumes for the construction industry. The return indicators of the company continue to be strong on account of lower operating leverage and the asset light model of the business.

Liquidity position: Strong

The liquidity position of the company is **strong**, with cash and liquid investments of Rs 203 crore as on March 31, 2020. As against its sanctioned working capital limits, the company had utilised only 36% of its limits on an average in FY2020. Notwithstanding the expected decline in turnover in FY2021, the company is expected to generate healthy cash flow from operations, which in the absence of long-term debt obligations and the moderate capital expenditure plans, will support the liquidity profile.

Rating sensitivities

Positive Trigger - The crystallisation of scenarios for rating upgrade is unlikely over the medium term owing to subdued outlook on construction equipment industry. However, greater product diversification, accompanied with increase in revenues and expansion in margins, could be a trigger for the rating upgrade.

Negative Trigger – Negative pressure on AEPL's ratings could arise if there is higher than expected decline in top line and margins due to persistent slowdown in demand. Any large capital expenditure or acquisition which materially impacts the capital structure and liquidity profile of the company could also be a negative trigger.

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) manufactures equipment for the construction industry, with a 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 equipment are used for concreting operations, in roads and bridges project, building construction, canal lining, dam and other infrastructure construction projects. During FY2020, Kedaara Capital bought a 6.5% stake in the company, with the remaining shareholding by the families of the promoters.

Key financial indicators

	FY2019	FY2020P
Operating Income (Rs. crore)	1,154.9	766.8
PAT (Rs. crore)	156.0	98.6
OPBDIT/OI (%)	22.5%	17.3%
RoCE (%)	76.4%	34.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.3
Total Debt/OPBDIT (times)	0.2	0.1
Interest Coverage (times)	15.0	162.3
DSCR	7.0	12.0

Note: FY2020 financials are provisional in nature

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					18-May-2020	19-Jul-2019	18-May-2018	7-Sep-2017
1	Cash Credit	Long Term	22.0	15.4	[ICRA]AA(Negative)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA-(Positive)
2	Non-Fund Based	Short Term	7.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

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 (Negative)
NA	Non-Fund Based	-	-	-	7.00	[ICRA]A1+

Source: Ajax Engineering Private Limited

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About ICRA Limited:

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