

September 21, 2021

ASM Technologies Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Cash Credit	18.00	23.64	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Long Term - Unallocated	5.64	0.00	-
Short Term – Interchangeable [^]	(13.52)	(23.64)	[ICRA]A3+; upgraded from [ICRA]A3
Total	23.64	23.64	

*Instrument details are provided in Annexure-1; [^] The short-term interchangeable limits are sub-limits of the cash credit limits

Rationale

The upgrade in rating factors in improvement in ASM's financial risk profile aided by healthy revenue growth and significant expansion in profitability resulting in improvement in debt coverage metrics in FY2021. ASM's revenue grew by 49.3% in FY2021 to Rs. 137.4 crore from Rs. 92.0 crore in FY2020 on the back expansion of orders from existing customers and addition of revenue from the newly acquired entity, Semcon India Pvt Ltd (now known as ASM Digital Engineering Private Limited). The operating margin of the company expanded to 13.2% in FY2021 from 2.6% in FY2020 on the back of improved returns from an order for which the employees were in the training period from Q1 till Q3 of FY2020. Further, the company achieved a revenue of Rs. 41.6 crore and an operating margin of 11.9% in Q1 FY2022. The revenue is expected to further improve in FY2022 with stable operating margins on the back of increased orders from existing customers. The company's debt coverage indicators improved and remained healthy in FY2021 as characterised by TD/OPBDITA of 1.8 times as on March 31, 2021 and interest cover of 6.4 times in FY2021 as compared to TD/OPBDITA of 9.1 times as on March 31, 2020 and interest cover 1.4 times in FY2020. However, the overall debt level of the company is expected to increase in the near term with the company planning to incur a total capex of Rs. 50.0 crore in FY2022 and FY2023 which will be funded through equity of Rs. 15.0 crore while the balance will be funded through debt. The capex is expected to be completed by the end of FY2023. Timely completion of the capex and impact of the same on return indicators post commissioning (expected to happen in FY2024) of the capex will remain a key rating monitorable for the company. The ratings continue to consider the extensive experience of the promoters in the IT industry and the established presence of ASM Technologies Limited (ASM) with presence of over two decades. The ratings derive comfort from the reputed client base of the company and the recurring revenues from these clients lending stability to its revenues.

The ratings, however, remain constrained by the relatively modest scale of operations limiting ASM's operational flexibility and competitive position. ICRA also takes note of the high segment concentration with majority of its revenues being derived from sale of service segment. However, the company is focussing on increasing its revenue from sale of product segment to diversify its segment concentration. The ratings also consider the risks arising from high client concentration and user industry in FY2021. With the US accounting for ~70% of the revenues in FY2021, the company is also exposed to moderate geographic concentration risk and foreign currency fluctuation risks.

Key rating drivers and their description

Credit strengths

Longstanding experience of the promoters for more than 20 years in the IT industry – ASM's operations are managed by Mr. Rabindra Srikantan, Managing Director, who is an MS in Computer Engineering and Computer Science-University of Louisiana, USA. Mr. Srikantan has over 20 years of experience in the IT Industry and is a member of National Association of Software and

Services Companies (NASSCOM). He has also served as the Chairman of Indo American Chamber of Commerce (IACC), Karnataka, and National Executive Council Member of Indo-American Chamber of Commerce(IACC) in the past.

Reputed client base consisting of leading players in their respective product segments; recurring revenues from clients lends stability to the revenues - The main clients of ASM include some of the reputed customers involved in manufacturing of semiconductor equipment and network devices. With the pace of technological advancement being very high in these industries, these clients invest significantly in R&D to stay ahead of competition, resulting in recurring revenues for ASM. Also, ASM has established strong relationship with these clients over its decade-old association and the revenues from these clients have been continuously increasing over the years.

Improved financial risk profile in FY2021 – ASM’s revenue grew by 49.3% in FY2021 to Rs. 137.4 crore from Rs. 92.0 crore in FY2020 on the back expansion of orders from existing customers and addition of revenue from the newly acquired entity, Semcon India Pvt Ltd (now known as ASM Digital Engineering Private Limited). The operating margin of the company expanded to 13.2% in FY2021 from 2.6% in FY2020 on the back of improved returns from an order for which the employees were in the training period from Q1 till Q3 of FY2020. Further, the company achieved a revenue of Rs. 41.6 crore and an operating margin of 11.9% in Q1 FY2022. The revenue is expected to further improve in FY2022 with stable operating margins on the back of increased orders from existing customers. The company’s debt coverage indicators improved and remained healthy in FY2021 as characterised by TD/OPBIDTA of 1.8 times as on March 31, 2021 and interest cover of 6.4 times in FY2021 as compared to TD/OPBDITA of 9.1 times as on March 31, 2020 and interest cover 1.4 times in FY2020. However, the overall debt level of the company is expected to increase in the near term with the company planning to incur a total capex of Rs. 50.0 crore in FY2022 and FY2023 which will be funded through equity of Rs. 15.0 crore while the balance will be funded through debt. The capex is expected to be completed by the end of FY2023. Timely completion of the capex and impact of the same on return indicators post commissioning (expected to happen in FY2024) of the capex will remain a key rating monitorable for the company.

Credit challenges

Moderate scale of operations - The Indian IT industry is highly competitive with the presence of large and established domestic and international players. The company’s scale of operations remained moderate at Rs. 137.4 crore in FY2021, restricting the financial and operational flexibility to an extent. However, the operating income is expected to grow at a healthy growth rate in FY2022 on the back of increased orders from existing customers.

High client concentration and user industry concentration - The company’s customer concentration risk remains with majority of revenues derived from few customers in FY2021. The high dependence of revenue from few customers accentuates the risk of revenue volatility that may result from client attrition, variations in demand from select clients, or any disruption of client business. ASM caters to diverse industries such as semiconductor equipment, hi-tech, telecom & networking, medical equipment, automotive and aerospace, enterprising storage, consumer electronics, etc. However, semiconductor equipment and telecom & networking industries contributed majority of the company’s revenues in FY2021 exposing the revenues of the company to demand volatilities in these industries. Additionally, although the company has been investing in building capabilities and increasing its offerings, its revenues are highly concentrated under the ER&D segment.

Moderate geographic concentration risk – Around 70% of ASM’s revenue is derived from US-based clients while the rest is derived from the domestic market. The high dependence on the US market exposes the company to geo-political risks. This apart, being an export oriented entity, the company remains exposed to foreign currency volatility risk, though partly hedged through forward contracts

Liquidity position: Adequate

The company’s liquidity position remains adequate with cash and bank balances as of Rs. 15.6 crore as on March 31, 2021 and undrawn working capital limits of Rs. 5.9 crore as June 30, 2021. The average working capital utilisation remained moderate at 72.1% for the 12-month period ending June 2021. The company is planning to incur a capex of Rs. 50.0 crore in FY2022 and

FY2023 (with an estimated capex of ~Rs. 15.0 crore to be incurred in FY2022 while the balance will be incurred in FY2023) through equity of Rs. 15.0 crore while the balance will be funded through debt. The company has a repayment obligation of Rs. 1.9 crore in FY2022 and FY2023 and the same will increase to Rs. 8.9 crore in FY2024 owing to the incremental debt being raised. However, the company's accruals are expected to remain sufficient to service the debt repayment.

Rating sensitivities

Positive factors – ICRA may upgrade ASM's ratings if the company demonstrates a substantial growth in revenue across a diversified customer base while improving profitability on a sustained basis.

Negative factors – Negative pressure on ASM's rating could arise if there is decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Further, ICRA could downgrade the rating if there is any delay in executing the capex or cost overruns in capex leading to weakening of coverage indicators or liquidity profile. ICRA could downgrade the rating if interest coverage is below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Service) Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the Consolidated financials of ASM

About the company

Incorporated in 1992, ASM Technologies Limited is an Information Technology company that provides consulting and product development services in the areas of engineering services and product R&D. The services offered include prototyping, testing and pilot production; value engineering; hardware and software designing of embedded systems; design and development of networking, wireless and cloud security products; product lifecycle and sustenance management; and test automation services among others. The company is in the process of expanding its service offerings and has recently forayed into areas of Virtual Reality (VR), Internet of Things (IoT) and open edX platform management. It caters to diverse industries such as semiconductor, hi-tech, medical equipment, automotive and aerospace, enterprising storage and networking, consumer electronics, etc.

Key financial indicators (audited)

ASM Technologies Ltd (Consolidated)	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	89.1	92.0	137.4
PAT (Rs. crore)	7.0	0.7	8.6
OPBDIT/OI (%)	7.4%	2.6%	13.2%
RoCE (%)	15.5%	5.1%	20.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6	0.9
Total Debt/OPBDIT (times)	2.3	9.1	1.8
Interest Coverage (times)	9.2	1.4	6.4
DSCR (times)	13.0	2.4	3.3

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019	
							Sep 21, 2021	Aug 20, 2020		Aug 30, 2019
1	Cash Credit	Long Term	23.64	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	
2	Unallocated	Long Term	0.00	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	
3	Interchangeable	Short Term	(23.64)	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+	
4	Non-fund based	Short Term	-	-	-	-	-	-	[ICRA]A3+	

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long Term - Cash Credit	Simple
Long Term - Unallocated	Simple
Short Term – Interchangeable^	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, is available on ICRA's 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	NA	NA	NA	23.64	[ICRA]BBB (Stable)
NA	Short Term – Interchangeable*	NA	NA	NA	(23.64)	[ICRA]A3+

Source: Company; * sub-limits of the cash credit limits

Annexure-2: List of entities considered for consolidated analysis

Company Name	Emudhra Ownership	Consolidation Approach
Subsidiary		
Advanced Synergic Pte Ltd, Singapore	100.0%	Full Consolidation
Pinnacle Talent Inc, USA	100.0%	Full Consolidation
ASM Technologies K K Japan	100.0%	Full Consolidation
RV Forms & Gears LLP	70.0%	Full Consolidation
ASM Digital Engineering Pvt Ltd	100.0%	Full Consolidation
Step-down Subsidiary		
ESR Associates Inc	100.0%	Full Consolidation

Source: ASM

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