May 06, 2022

Ace Manufacturing Systems Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based Limits	16.93	23.75	[ICRA]AA- (Stable); reaffirmed
Short-Term Fund-Based Limits	0.00	10.00	[ICRA]A1+; reaffirmed
Long-Term – Term Loan	15.56	0.00	-
Short-Term Non-Fund Based Limits	59.00	53.00	[ICRA]A1+; reaffirmed
Total	**91.49**	**86.75**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in the strong market position of Ace Manufacturing Systems Ltd. (AMSL) in the computer numerical control (CNC) machining centre segment of the domestic machine tools industry. The ratings also take into consideration the company's comfortable capital structure with low borrowings and strong debt-coverage indicators. Further, the ratings continue to factor in the extensive experience of the promotors and the Group's diverse presence in the machine tools industry. AMSL's focus on research and development (R&D) and technical capabilities help in providing customised solutions to the customers. The ratings also consider the strong bargaining power enjoyed by the company with its vendors, support from Group entities for key component purchases like roller, sheets, etc., and strong marketing and after-sales services.

The ratings are, however, constrained by the vulnerability of AMSL's revenue to the economic environment and capex cycle in the underlying consuming sectors. Accordingly, the ratings are constrained by the company's significant exposure to the cyclical automotive sector which accounts for a substantial portion of the company's sales. AMSL's performance over FY2020-FY2021 was impacted by the slowdown in the automobile sector and the effects of Covid-19; though the company was able to achieve pre-Covid revenue level in FY2022, registering significant year-on-year (YoY) growth. This apart, the company faces high competition from domestic players in the standard machinery segment and from foreign players in the customised machinery segment. Further, the company's profit margins are susceptible to raw material price fluctuations due to the absence of price escalation clause in the contracts.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's expectations that AMSL's credit profile will continue to be supported by its established position in the domestic CNC machining centre market along with its strong liquidity position.

Key rating drivers and their description

Credit strengths

Leading manufacturer of CNC machining centres - AMSL is one of the largest players with an estimated market share of ~20% in the horizontal and vertical machining centre market in India. AMSL's strong R&D and technical capabilities along with the

extensive experience of the promoters in the machine tools industry helps it in providing customised solutions to the customers. CNC manufacturing is a technology-and-capital-intensive business; this apart, the high precision level is one of the critical requirements in the value chain of auto manufacturers. This makes the entry barrier strong for new entrants as they spend towards similar infrastructure, while replicating the technological expertise would be a challenge.

Operational support from Group companies - The company is a part of the Ace Micromatic Group, which has a diversified presence in the machine tools industry, with products such as CNC lathes, milling & drilling and grinding machines. Support from the Group entities for key components and strong marketing and after-sales service act as key differentiating factors for AMSL compared to the other players in the industry.

Established relationship with clients and low customer concentration - The company has established relationship with many of its clients such as Suzuki Power Train India Ltd, Bosch Limited, Bajaj Motors, Endurance Group etc. The customer concentration of the company has been historically low which works to the company's advantage. In 9M FY2021 and 9M FY2022, the top five clients of the company contributed only 11% and 12%, respectively, to the company's total revenues. ICRA notes the company's efforts towards diversification into other sectors apart from the automobile sector.

Comfortable gearing and healthy coverage indicators despite decline in profit margins - AMSL's financial profile continues to be healthy, characterised by a comfortable capital structure and strong liquidity position on the back of lower borrowings and substantial liquid investments. The gearing stood at 0.04 times as on March 31, 2021 compared with 0.07 times as on March 31, 2020. The operating profit margin (OPM) declined to 5.76% in FY2021 from 8.36% in FY2020 due to higher discounts offered to the customers along with higher input costs; however, the OPM is expected to improve to around 10.0% in the current fiscal supported by the reduction in discounts and better absorption of fixed overheads with the increase in scale. The company's coverage indicators remain comfortable with TD/OPBIDTA at 0.60 times, interest coverage at 9.63 times, NCA/TD at 155% and DSCR to 2.59 times in FY2021. The capital structure and coverage indicators are expected to further improve in FY2022, supported by the improvement in scale and profitability, and almost nil debt as on March 31, 2022.

Credit challenges

Inherent volatility in end-user industry - AMSL is vulnerable to the cyclicity and volatility in industry performance, which depends significantly on the capex cycles in the underlying consumer sectors. AMSL's products find application mainly in the automotive industry along with other end-user industries like electronics, defence, general engineering, education, etc. AMSL's FY2020 revenue and profitability were severely impacted by the slowdown in the auto industry during the period and the effects of the pandemic in FY2021. Nevertheless, the company's revenue and profitability are expected to significantly improve in FY2022 backed by the revival in demand.

Competition in domestic machine tool industry - The company faces stiff competition from domestic players in the standardised machinery segment and from imports in case of high value-added specialised and customised products.

Fluctuations in raw material prices - The major raw materials used by the company are cast iron, stainless steel, MS, CRC/HRC sheets, precision bearings, ball screws, hydraulic & pneumatic element, which form a major portion of the total cost. Hence, AMSL's profitability remains exposed to the fluctuations in the prices of these commodities.

Liquidity position: Strong

AMSL's liquidity position is strong, marked by healthy cash and liquid investments of Rs. 84.0 crore as on December 31, 2021. The outstanding long-term debt as of December 2021 was low at Rs. 6.66 crore, which was entirely repaid at the end of the fiscal. Further, the working capital limits have significant cushion, marked by low utilisation of ~11% over the 12-month period of January 2021 to December 2021.

Rating sensitivities

Positive factors: ICRA could upgrade AMSL's ratings if the company demonstrates a sustained improvement in its capacity utilisation, resulting in improved scale of operations and profitability levels. ICRA could also upgrade the ratings if the ROCE increases to above 20% on a sustained basis.

Negative factors: Negative pressure on AMSL's ratings could arise if the order book position declines or the liquidity position deteriorates from the current levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of AMSL.

About the company

AMSL was incorporated on March 7, 1994 by Mr. P. Ramadas along with the promoters of Ace Designers Limited – Mr. A.V Sathe, Mr. B. Machado & Mr. S. G Shirgurkar - to manufacture machining centres. The company is a part of the Ace Micromatic Group which is the largest machine tools Group in India. The Group has presence in the machine tools segments such as the manufacturing of CNC lathes, milling & grinding machines and other key components which are used in the machine tools industry. AMSL's manufacturing plant is in the Peenya Industrial Area of Bengaluru with an installed capacity to manufacture 3,200 machines annually.

Key financial indicators

	FY2020	FY2021
Operating Income (Rs. crore)	383.81	401.27
PAT (Rs. crore)	21.77	16.40
OPBDIT/OI (%)	8.36%	5.76%
PAT/OI (%)	5.67%	4.09%
Total Outside Liabilities/Tangible Net Worth (times)	0.29	0.53
Total Debt/OPBDIT (times)	0.70	0.60
Interest Coverage (times)	9.44	9.63

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 (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	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 06, 2022	Mar 19, 2021	Mar 26, 2020	Nov 27, 2018
1	Long-Term Fund-Based Limits	Long term	23.75	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA- (Stable)
2	Short-Term Fund-Based Limits	Short term	10.00	-	[ICRA]A1+	-	-	-
3	Long-Term – Term Loan	Long Term	0.00	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA- (Stable)
4	Short-Term Non-Fund Based Limits	Short Term	53.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated Limits	Long Term/ Short Term	0.00	-	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Negative)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund-Based Limits	Simple
Short-Term Fund-Based Limits	Simple
Short-Term Non-Fund Based Limits	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Fund-Based Limits	NA	NA	NA	23.75	[ICRA]AA- (Stable)
NA	Short-Term Fund-Based Limits	NA	NA	NA	10.00	[ICRA]A1+
NA	Short-Term Non-Fund Based Limits	NA	NA	NA	53.00	[ICRA]A1+

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Rishi S Tekchandani
+91 79 4027 1519
rishi.tekchandani@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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For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches

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