

February 03, 2023

Ace Designers Limited: Placed on Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loans	120.00	100.00	[ICRA]A+ Placed On Rating Watch with Developing Implications
Short Term – Fund-based Facilities	80.00	80.00	[ICRA]A1 Placed On Rating Watch with Developing Implications
Total	200.00	180.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings have been placed on watch with developing implications following an announcement of amalgamation scheme of Ace Manufacturing Systems Limited (an associate company of Ace Designers Limited) with Ace Designers Limited (ADL) with appointed date being April 01, 2022. ICRA will continue to monitor developments regarding the amalgamation announcement and take appropriate rating action as required.

The ratings continue to factor ADL's strong operational profile marked by its strong market share in the domestic CNC lathe manufacturing segment, long track record in the domestic CNC lathe industry, diversified presence across the country and established relationship with a reputed client base, which supports its strong order book position. The ratings also consider the strong bargaining power enjoyed by the company with its vendors, support from group entities for key components, and strong marketing and after sales services. The ratings also factor in ADL's focus on research and development (R&D) and technical capabilities, which helps it provide customised solutions to the customers, and the strong experience of the promoters in the domestic CNC lathe industry. After being subdued during FY2020-FY022, ADL witnessed sequential improvement in margins in H1/9m FY2023 supported by price hikes taken by the company (to compensate for the raw material price increases), process efficiencies, and improving capacity utilisation.

The ratings, however, are constrained by vulnerability of ADL's revenue to economic environment and capex cycle in the underlying consumer sectors. The ratings also factor in the company's significant exposure to the cyclical automotive sector which accounts for a substantial portion of the company's sales (more than 40% of its sales volume derived from the auto industry during FY2022 and H1 FY2023). 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 margins are susceptible to raw material price fluctuations as cast iron, stainless steel, MS, CRC/HRC sheets, hydraulic & pneumatic elements etc. are majority of the mechanical parts utilised in the production with fixed price nature of the contracts. Also, as life of the machines is over ~10 years, recurring revenues are low, and sourcing of the new customers is a continuous process. While the company's operating margins improved sequentially during 9m FY2023, ICRA notes that the operating margins continue to remain lower than pre-FY2020 levels.

Key rating drivers and their description

Credit strengths

Experienced promoters with proven track record in CNC lathe manufacturing: ADL is part of the Ace Micromatic Group, which has a diversified presence in machine tools industry, with products such as CNC lathes, milling & drilling and grinding machines. The promoters have been involved in machine tools industry for over four decades and have established relationships with

OEMs and suppliers thus supporting ADL's operational profile. ADL also benefits from the support from group entities for key components, strong marketing and after sales services across India.

One of the leading players in the domestic CNC Lathe segment - ADL is one of the largest players in domestic lathe industry in India. The company's long-standing presence in the industry, diversified presence across the country, its strong R&D and technical capabilities enable it in providing customized machines to its customers. Market share of the company continues to remain sizeable in the domestic market. CNC manufacturing is a technology and capital-intensive business; this apart, high precision levels is one of the critical requirements in the value chain of auto manufacturers. This makes a strong entry barrier for new entrants as spend towards similar infrastructure amidst replicating technological excellence would be a challenge.

Established relationship with clients and low customer concentration - The company has longstanding relationships with large domestic customers. ADL's revenues remain well diversified across its customer base with top 10 customers accounting for less than 10% of the company's revenues during FY2022 and H1 FY2023. While the company has an established relationship with majority of the clientele, recurring revenues from the customers on a regular basis remains low owing to the long life of product.

Healthy increase in order inflow since the relaxation of lockdown - ADL witnessed steep decline in revenues on account of weak order inflow in H2 FY2020 owing to slowdown in demand from auto industry. The same was further exacerbated by the pandemic and lockdown in FY2021 and Q1 FY2022. Volumes recovered sharply during FY2022 as ADL witnessed 48% y-o-y volume growth driven by higher demand majorly contributed by automotive and automobile segment. Improved demand scenario, diversified product offerings and reduced lead time between order booking and installation of the machines, helped ADL to improve its performance during FY2022 and H1 FY2023.

Credit challenges

Inherent volatility in the end user industry - ADL is vulnerable to the cyclicity and volatility in the industry performance, which depends significantly on the capex cycles in the underlying consumer sectors. ADL's products find application in end user industries like auto, defence, general engineering, education, etc. High concentration of revenue from automobile and automotive sector affected company's performance during FY2020. The company also witnessed some revival in its performance with improved demand scenario across segments in FY2022 and YTD FY2023. Thus, performance of the company is highly dependent upon the performance of the consumer sectors.

High competitive intensity in the Indian lathe manufacturing industry - ADL faces high competition on price for low value-added machinery from domestic players and competition of quality products in high value-added products from overseas players. Despite its strong market position, ADL faces pricing pressures due to intense competition, primarily from unorganised players which impacts its pricing flexibility and profit margins to a certain extent.

Profitability vulnerable to changes in raw material prices - The major raw material includes CNC controllers, stainless steel, MS, CRC/HRC sheets, precision bearings, hydraulic & pneumatic element which constitute major portion of the cost. Hence, ADL's profitability remains exposed to the fluctuations in raw material costs of these inputs. Vulnerability to volatility in raw material prices and inability to pass on increase in input prices to its end customers due to higher competition has led operating profit margins of the company being affected in the recent past.

Liquidity position: Adequate

ADL's liquidity position is adequate with cash and liquid investments of Rs. 65.0 crore and undrawn working capital facilities of Rs. 40.8 crore as against sanctioned limit of Rs. 65.0 crore as on September 30, 2022. ADL has repayment obligations of Rs. 41.2 crore, Rs.39.9 crore and Rs.17.4 crore during FY2023, FY2024 and FY2025 respectively. ICRA expects ADL to be able to meet its repayment obligations and capital expenditure plans through internal accruals and existing cash balances.

Rating sensitivities

Positive factors – ICRA could revise the company’s rating if it demonstrates steady growth in revenue and improvement in the profitability metrics along with an improvement in its liquidity profile. Specific metrics that could lead to upgrade in the ratings could be RoCE of 20% and net debt/OPBITDA of 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise with a deterioration in ADL’s credit or operational profile or if the cash accrual is lower than expected or if any major capital expenditure or inability to improve its working capital cycle weakens its liquidity position. Specific metrics that could lead to downgrade of ratings could be interest cover below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ADL.

About the company

Incorporated in 1979, Ace Designers Limited (ADL / the company) was started as a partnership firm by three technocrat promoters viz. Mr. Shrinivas G. Shirgurkar, Mr. B. Machado and Mr. A.V. Sathe to provide technical expertise in the designing of machine tools. The company presently specialises in manufacturing of CNC lathes with its product range including both standard CNC lathes and customised machines equipped with tools to meet specific requirements of the customers. The company caters to a wide number of industries including automotive, engineering, bearings, plastic, irrigation, education, defence, etc.

Key financial indicators (audited)

ADL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	648.2	983.2
PAT (Rs. crore)	-10.9	13.1
OPBDIT/OI (%)	3.2%	4.7%
PAT/OI (%)	-1.7%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1
Total Debt/OPBDIT (times)	6.1	2.7
Interest Coverage (times)	1.4	4.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation Source: Company, ICRA Research;. All ratios as per ICRA calculations

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 of Sep 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					February 03, 2023		Oct 22, 2020	May 04, 2020	
1	Term Loan	Long Term	100.0	94.9	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Stable)
2	Fund based facilities	Short Term	80.0	24.2	[ICRA]A1&	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+

&: On Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term – Fund Based	Simple
Long Term – Fund Based - TL	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 analyzing 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: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term - Term Loan	FY2019-FY2023	NA	FY2025	100.00	[ICRA]A+ Rating Watch with Developing Implications
NA	Short Term - Fund based Facilities	NA	NA	NA	80.00	[ICRA]A1 Rating Watch with Developing Implications

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ADL's Ownership	Consolidation Approach
Taurus Private Limited	100.00%	Full Consolidation
AMACE Solutions Private Limited	47.00%	ADL's share of profit consolidated
Ace Multi Axes Systems Limited	31.47%	
Micromatic Machine Tools Private Limited	23.03%	
Ace Manufacturing Systems Limited	25.39%	
Ace Micromatic International Private Limited	40.00%	

Source: ADL annual report FY2022

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Mythri Macherala

+91 80 4332 6407

mythri.macherala@icraindia.com

Gaurav Kanade

+91 22 6114 3469

gaurav.kanade@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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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

ICRA Limited



Registered Office

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



Branches



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