August 23, 2023

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash credit	32.00	32.00	[ICRA]AA (Stable); reaffirmed; outlook revised to 'Stable' from 'Negative'
Non-fund based facilities	7.00	7.00	[ICRA]A1+; reaffirmed
Total	**39.00**	**39.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating of Ajax Engineering Private Limited (AEPL) to Stable reflects the significant increase in its sales volumes and profitability in FY2023. In FY2024, the company expects to record over 30% year-on-year (YoY) growth in volumes and the operating profitability is estimated to improve by ~100 basis points. The sales volumes for its flagship product viz. self-loading concrete mixer (SLCM), which account for over 80% of its revenues, witnessed a healthy YoY growth of 53% in FY2023 to 2,857 units, driven by strong state level infrastructure push (especially in Q4 FY2023), pick up in the pace of execution and improvement in geographical reach. The operating margins improved to 15% in FY2023 from 12% in FY2022 owing to growth in sales realisations, coupled with operating leverage benefits. Going forward, the demand prospects for the concreting segment remain favourable, aided by the Government's continued thrust on infrastructure development and improving mechanisation levels in projects (especially in rural and semi-urban areas). Though the upcoming elections, coupled with price hike expected due to implementation of BS-V emission norms (effective from April 1, 2024) are likely to impact sales in H1 of FY2025, the underlying demand drivers for the concreting equipment segment remain strong, which should support recovery in the company's performance thereafter.

The ratings continue to draw comfort from AEPL's established presence in the construction equipment (CE) industry with a strong brand recognition, extensive distribution network and market leadership position in the SLCM segment, with over 70% share[1] in the domestic market. The ratings favourably factor in the company's strong financial profile, marked by a healthy net worth and negligible debt levels. Its credit profile is aided by free cash and liquid investments of ~Rs. 500 crore as on March 31, 2023, most of which are invested in fixed deposits, short-term debt and liquid mutual funds. In absence of any major capex and investment plans, the company is likely to remain net debt free and maintain cash and liquid investments of over ~Rs. 350 crore on a sustained basis.

The strengths are partially offset by the intense competition in the CE industry and volatility in earnings caused by the cyclicality in the construction industry. Notwithstanding its strong market share in SLCM segment, the pricing flexibility remains modest owing to stiff competition. The ratings factor in the vulnerability of the company's operations to the fluctuations in input prices and limited ability to pass on the same to the end users, thereby keeping the profitability margins volatile. It is also exposed to product concentration risk, given that ~80% of revenues are generated from a single product. Going forward, AEPL's ability to diversify its product profile, sustainably increase its scale of operations along with margin expansion, would be crucial from the credit perspective.

[1] Source: VAHAN Data

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its market leadership position in the SLCM segment and the favourable demand outlook for concreting products in the Indian CE industry.

Key rating drivers and their description

Credit strengths

Established track record in CE industry with dominant position in SLCM segment - AEPL has a track record of over three decades and an established position in the domestic MCE industry with over 70% market share in the SLCM segment. However, the same has moderated from ~80%+ levels in the past, led by stiff competition from other established players and increase in the number of OEMs in the segment. Its flagship product, SLCM, enjoys good reputation in the industry because of its good product quality, established brand name and an extensive distribution network.

Low leverage and robust coverage indicators - The company continues to have a healthy net worth (over Rs. 700 crore) and minimal debt on books (Rs. 11.1 crore as on March 31, 2023). This has resulted in a comfortable capital structure and strong coverage indicators, as reflected in Total Debt/OPBDITA of 0.1 times, Total Outside Liabilities/Tangible Net Worth of 0.4 times and interest cover of over 600 times as on March 31, 2023. AEPL does not have any debt-funded capex or investment plans and is expected to maintain this position over the medium term.

Strong liquidity - AEPL's credit profile is strengthened by high free cash and liquid investments worth ~Rs. 500 crore as on March 31, 2023. In absence of major capex and investment plans, the company is likely to remain net debt free and maintain cash and liquid investments of over ~Rs. 350 crore on a sustained basis.

Credit challenges

Relatively moderate scale of operations with high product concentration - AEPL remains a moderate-sized player as compared to other CE OEMs in the similar rating level. Over 80% of its revenues are derived from SLCMs, which exposes it to high product concentration risk. While the company has been increasing focus on other products like batching plants, transit mixers and boom pumps, their contribution to revenues remains low at ~10% (in FY2023). Going forward, AEPL's ability to diversify its product profile, along with margin expansion, remains crucial from the credit perspective.

Vulnerability of earnings to cyclical downturns in economy; profitability exposed to input cost pressure amid intense competition - CE being a cyclical industry is prone to sharp swings in demand in the end-user industries. AEPL's flagship product, SLCM's sales are predominantly to the roads, irrigation and real estate sector and are highly dependent on the Government's infrastructure spending and capex from the private sector. Moreover, its profitability remains vulnerable to any increase in raw material prices as the same accounts for nearly 75% of the total cost structure. The inability to fully pass on the increase in raw material and logistic costs, amid intense competition, led to moderation in its operating profitability over the past few years. However, its return indicators continue to remain healthy with return on capital employed remaining above ~25%. The softening in commodity prices in the recent quarters is a positive. With the forthcoming change in emission norms to BS-V (scheduled from April 1, 2024, which would be applicable to AEPL's entire product range), the company's ability to timely pass on the price increase without impacting the demand will be a key monitorable.

Liquidity position: Strong

AEPL's liquidity is expected to remain strong in the absence of any long-term debt repayments, free cash and liquid investments of ~Rs. 500 crore as on March 31, 2023 and cushion available in the working capital limits. Its capex plans in FY2024-25 (~Rs. 70-90 crore) are anticipated to be met through internal accruals, the company is likely to remain net debt free with free cash and liquid investments of over ~Rs. 350 crore on books, on a sustained basis.

Rating sensitivities

Positive factors - ICRA could upgrade AEPL's ratings if the company demonstrates increased product diversification accompanied by sustained and substantial increase in earnings and profitability while maintaining a strong liquidity.

Negative factors - Pressure on AEPL's ratings could arise if there is a deterioration in the market share and volumes, leading to material decline in its revenues and/or profitability and/or if there is any material weakening in its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements

About the company

Established in 1992, AEPL (formerly known as Ajax Fiori Engineering (India) Pvt Ltd) manufactures construction equipment, mainly concrete equipment such as SLCMs, pan mixers, radius lift arm batching plants, bin type concrete batching plants, site dumpers, concrete pumps, concrete boom pumps and transit mixers. These are used for concreting operations, in roads and bridges project, building construction, canal lining, dam and other infrastructure construction projects. In FY2020, Kedaara Capital bought a 6.5% stake in the company, while the rest is held by the promoter families (viz. Mr. Jacob Jiten John, Krishnaswamy Vijay and Mr. Kalyani Vijay). The company is headquartered at Bangalore and has its manufacturing facilities at Doddaballapur and Gowribidanur in the outskirts of Bangalore, Karnataka.

Key financial indicators

Standalone	FY2021	FY2022	FY2023*
Operating income (Rs. crore)	741.7	763.3	1,154.7
PAT (Rs. crore)	97.4	66.2	184.3^
OPBDIT/OI (%)	17.4%	11.9%	14.8%
PAT/OI (%)	13.1%	8.7%	16.0%^
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.4
Total debt/OPBDIT (times)	0.0	0.1	0.1
Interest coverage (times)	144.2	215.1	648.7

Source: Company data, ICRA Research
*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional financials ^Profit before taxation*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2023 (Rs. crore)	Date & Rating on	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Aug 23, 2023	Oct 14, 2022	Jul 1, 2022	Jul 2, 2021	May 18, 2020
1	Fund-based - Cash credit	Long-term	32.00	11.1	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Negative)
2	Non-fund based limits	Short-term	7.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated limits	Long-term	-	NA	-	-	[ICRA]AA (Negative)	[ICRA]AA (Stable)	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based - Cash credit	Simple
Short-term - Non-fund based facilities	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based - Cash credit**	NA	NA	NA	32.00	[ICRA]AA (Stable)
NA	**Non-fund based facilities**	NA	NA	NA	7.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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