

February 05, 2024

## Ace Designers Limited: Ratings upgraded; removed from Rating Watch with Developing Implications and Stable outlook assigned; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loans	100.0	49.20	[ICRA]AA-; upgraded from [ICRA]A+; Removed from Rating Watch with Developing Implications and Stable outlook assigned
Long Term – Fund based	-	10.00	[ICRA]AA- (Stable); assigned
Short Term – Fund-based Facilities	80.00	93.75	[ICRA]A1+; upgraded from [ICRA]A1; Removed from Rating Watch with Developing Implications
Short Term – Non - Fund- based Facilities	-	93.00	[ICRA]A1+; assigned
Long Term / Short Term – Unallocated limits	-	54.05	[ICRA]AA-(Stable)/[ICRA]A1+; assigned
<b>Total</b>	<b>180.00</b>	<b>300.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

Ace Designers Limited's (ADL/ the company) ratings were placed on Watch with Developing Implications following an announcement of amalgamation scheme of Ace Manufacturing Systems Limited (AMSL, an associate company of Ace Designers Limited) with ADL, with an appointed date of April 01, 2022. The Rating Watch with Developing Implications has been removed following the National Company Law Tribunal's (NCLT) approval for the amalgamation scheme in August 2023. Simultaneously, ICRA has also upgraded the ratings of the company and assigned a Stable outlook to the long-term rating of the company.

The ratings upgrade takes into account the improved operational and financial profiles of the company post amalgamation of AMSL into ADL. Until the amalgamation, ADL and AMSL operated as two distinct entities under the same group, both dealing in CNC lathes, as both have specialisation in different types. ADL specialises in turning center CNC lathes, while AMSL specialises in machining center CNC lathes. Thus, ICRA notes that the aforementioned amalgamation resulted in an enhanced product profile for ADL by addition of machining center CNC lathes which have more customized applications, in turn generating better realizations and higher margins. Going forward, the machining center CNC lathe segment is expected to be the key growth driver for the company, given the higher expected demand for customised machining applications. The amalgamation has also led to significant improvement in scale of operations for ADL, which is expected to lead to better operational synergies by leveraging the core competencies of both the companies in design, development and other cross functions, better bargaining power with suppliers (as ~60% of raw materials is common for ADL and AMSL) and by having broader market reach. The amalgamation has also led to significant improvement in debt metrics of the company, supported by net-debt negative status of AMSL along with its better margin profile.

The ratings upgrade also takes into account the healthy business performance of the company (amalgamated entity) during FY2023 and H1 FY2024, characterised by healthy revenue growth and margins along with its strong liquidity position. The revenue growth for the company was supported by healthy volume growth on the back of diversified product offerings, lower lead times for product delivery and one of the best post-sale services offered by the company. Further, increased contributions

from high-margin customised machines and healthy operating leverage supported margin expansion. The company witnessed revenues of Rs. 1,991.5 crore and Rs. 971.7 crore with an operating margin of 6.8% and 9.1% during FY2023 and H1 FY2024, respectively, and ICRA expects the company to register healthy revenue growth in FY2024, while maintaining its strong margins.

The ratings continue to factor ADL's strong operational profile marked by its strong market share and long track record in the domestic CNC lathe manufacturing segment, diversified presence across the country and established relationships with a reputed client base, which support 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.

The ratings are, however, constrained by the 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 FY2023 and H1 FY2024). 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.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company's long track record of operations, reputed client profile, and long track record of the company's promoters in the business will continue to support its financial profile, characterised by healthy credit metrics and stable margins along with strong liquidity position.

## 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 the machine tools industry, with products such as CNC lathes, milling & drilling and grinding machines. The promoters have been involved in the 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 of Group entities for key components, strong marketing and after-sales services across India.

**Improved operational and financial profiles post amalgamation of AMSL into the company** - Amalgamation of AMSL into ADL led to significant improvement in the company's operational and financial profiles. Until now, ADL and AMSL operated as two distinct entities under the same group, both dealing in CNC lathes, as both have specialisation in different types. ADL specialises in turning center CNC lathes, while AMSL specialises in machining center CNC lathes. Thus, amalgamation has enhanced the product profile of ADL by addition of machining center CNC lathes which have more customised applications, in turn generating better realisations and higher margins. The amalgamation has also led to significant improvement in scale of operations for ADL, which is expected to lead to better operational synergies, in turn improved margins, by leveraging the core competencies of both the companies in design, development and other cross functions, better bargaining power with suppliers (as ~60% of raw materials is common for ADL and AMSL) and by having broader market reach. Further, the amalgamation led to significant improvement in debt metrics of the company, supported by net-debt negative status of AMSL along with its better margin profile. The gearing of the company improved to 0.1 times as on September 30, 2023 (0.1 times as on March 31, 2023) from 0.3 times as on March 31, 2022. Net Debt/OPBDITA of the company improved to -0.4 times as on September 30, 2023 (-0.3 times as on March 31, 2023) from 1.1 times as on March 31, 2022. This, combined with strong cash accruals supported by

healthy margins, led to improvement in coverage ratios, with interest coverage ratio improving to 16.7 times during H1 FY2024 (11.4 times in FY2023) from 4.2 times in FY2022 and DSCR to 2.5 times in H1 FY2024 (2.1 times in FY2023) from 1.0 times in FY2022. While the company has plans for debt-funded expansion capex for machining center CNC lathes in FY2025, the debt metrics are expected to be comfortably supported by healthy operating accruals, on the back of its established position in the domestic market.

**One of the leading players in the domestic CNC lathe segment** - ADL is one of the largest players in the 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 customised 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 relationships 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 FY2023 and H1 FY2024. While the company has established relationships with majority of the clientele, recurring revenues from the customers on a regular basis remains low owing to the long life of product.

### 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. Although the company is focused on increasing contribution from other industries, volume contribution from the automotive sector remained over 40% during FY2023 and H1 FY2024, exposing it to cyclicity in demand from this sector. Thus, despite catering to multiple industries, the company's revenue and earnings remain susceptible to the economic activities and capex cycles of those industries.

**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 materials include 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.

### Liquidity position: Strong

ADL's liquidity position is strong, with free cash and liquid investments of ~Rs. 180.0 crore and undrawn working capital limit of Rs. 82.6 crore against sanctioned limit of Rs. 98.8 crore as on September 30, 2023. The company's average working capital utilisation remained ~24% against its sanctioned limits between October 2022 and September 2023. ADL has repayment obligations of Rs. 39.9 crore, Rs.22.7 crore and Rs.9.7 crore during FY2024, FY2025 and FY2026, respectively, for its existing debt. During FY2024, the company is expected to incur only maintenance capex at a consolidated level and has capacity expansion plans for the machining center CNC lathes segment in FY2025, which is expected to be funded with mix of internal accruals and debt. ICRA expects the company to meet its near-term commitments comfortably through internal accruals and available cash and liquid investments.

### Rating sensitivities

**Positive factors** - ICRA could revise the company's rating if it demonstrates significant growth in revenue and improvement in the profitability metrics while maintaining its debt metrics and liquidity profile.

**Negative factors** – The ratings could be downgraded in case of a significant deterioration in the company's profitability or if there is large outflow towards capex leading to an adverse impact on credit metrics on a sustained basis. Specific metrics that could lead to downgrade of ratings could be Total Debt/OPBDITA of above 1.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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.

In FY2023, Ace Manufacturing Systems Limited (AMSL), an associate company of ADL till FY2022, got merged into ADL effective April 01, 2022. 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. AMSL manufactures CNC lathes, milling & grinding machines and other key components used in the machine tools industry. AMSL's manufacturing plant is in the Peenya industrial area of Bengaluru with an installed capacity to manufacture ~3,500 machines annually.

## Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	983.2	1,991.5	971.7
PAT#	13.1	135.5**	52.8
OPBDIT/OI	4.7%	6.8%	9.1%
PAT/OI	1.3%	6.8%	5.4%
Total outside liabilities/Tangible net worth (times)	1.1	0.8	0.7
Total debt/OPBDIT (times)	2.7	0.9	0.6
Interest coverage (times)	4.2	11.4	16.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore; \* Provisional.

Note: The NCLT approved the amalgamation scheme for the company, effective from April 01, 2022 in August 2023 and hence, the financials for FY2022 are not comparable given the restatement has been done only from FY2023 onwards.

\*\* Includes fair value gain of Rs.85.98 crore from investment in associate; # Excluding the net profit of associates

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. Crore)	Amount outstanding as of Sep 30, 2023 (Rs. Crore)	Date & rating in FY2024		Date & rating in FY2023	Date & Rating in FY2022	Date & rating in FY2021	
				Feb 05, 2024	Sept 15, 2023	Feb 03, 2023	Dec 29, 2021	Oct 22, 2020	May 04, 2020
1 Term loans	Long-term	49.20	53.80	[ICRA]AA-(Stable)	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
2 Fund-based Facilities	Long-Term	10.00	-	[ICRA]AA-(Stable)	-	-	-	-	-
3 Fund-based facilities	Short term	93.75	-	[ICRA]A1+	[ICRA]A1&	[ICRA]A1&	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Non - Fund-based Facilities	Short term	93.00	-	[ICRA]A1+	-	-	-	-	-
5 Unallocated limits	Long Term & Short term	54.05	-	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-	-

&: Rating Watch with Developing Implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long Term – Fund based	Simple
Short -Term – Fund-based	Simple
Short Term – Non - Fund- based Facilities	Very Simple
LT/ST – Unallocated limits	NA

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	Long Term - Term Loan	FY2019-FY2023	NA	FY2026	49.20	[ICRA]AA-(Stable)
NA	Long Term – Fund based	NA	NA	NA	10.00	[ICRA]AA-(Stable)
NA	Short Term - Fund based Facilities	NA	NA	NA	93.75	[ICRA]A1+
NA	Short Term – Non - Fund- based Facilities	NA	NA	NA	93.00	[ICRA]A1+
NA	LT/ST – Unallocated limits	NA	NA	NA	54.05	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	ADL's Ownership	Consolidation Approach
Taurus Private Limited	100.00%	Full Consolidation
Ace Micromatic International Private Limited	80.00%	Full Consolidation
AMACE Solutions Private Limited	94.00%	Full Consolidation
Ace Multi Axes Systems Limited	31.47%	Equity Method
Micromatic Machine Tools Private Limited	33.02%	Equity Method

Source: ADL annual report FY2023

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