February 23, 2024

ASM Technologies Limited: Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credit	23.64	23.64	[ICRA]BB+ (Stable) downgraded from [ICRA]BBB- (Stable)
Short-term – Interchangeable^	(23.64)	(23.64)	[ICRA]A4+ downgraded from [ICRA]A3
Total	**23.64**	**23.64**	

**Instrument details are provided in Annexure-I, ^ The short-term interchangeable limits are sub-limits of the cash credit limits*

Rationale

ICRA had downgraded the ratings of ASM Technologies Limited (ASM/ the company) in July 2023 on account of moderation in the credit profile of the company given the contraction of its profit margins, and deterioration of its debt metrics and liquidity position in FY2023. The current rating revision considers ASM's weaker than expected performance in 9M FY2024. Although ICRA had expected the company's performance to recover to some extent during the current fiscal, the same did not materialise, resulting in further deterioration in the credit profile and liquidity position of the company. ICRA expects the weak performance to sustain, going forward.

During 9M FY2024, the company's revenue declined by 6.8% year-on-year, mainly on account of reduction in revenue from its top customer. While this customer was expected to provide additional business to compensate for the lost revenue, the same has been delayed, impacting the revival in revenues for the company. Additionally, decline in revenues from another customer on account of business slowdown and delayed revenue generation from new customers impacted ASM's revenue growth. The operating margin of the company declined significantly in 9M FY2024 by 680 bps to 3.1%. This was mainly on account of wage inflation, project delays causing a lag between billing and advanced hiring carried out for the same, higher rental expenses for its newly opened office and expenditure for refurbishing its existing offices. Decline in operating margin combined with higher interest cost on account of increased debt amid a rising interest rate environment impacted the net profit margin, which declined by 640bps to 2.2% in 9M FY2024 against 4.1% in 9M FY2023.

Despite raising Rs. 8.0 crore from rights issues at the start of FY2024, the company's debt (excluding lease liability) remained elevated at Rs. 63.8 crore as on December 31, 2023, compared to Rs. 61.0 crore as on March 31, 2023, due to increased working capital debt, allocation of equity proceeds for inorganic growth, and for funding cash losses during 9M FY2024. Increased debt combined with reduction in profitability has led to sustained deterioration in credit metrics during the current fiscal. The rating revision also considers the stretched liquidity position of the company, as reflected by the limited buffer available in its working capital limits on a sustained basis over the recent past.

The assigned ratings continue to consider the extensive experience of the promoters in the IT industry and the established presence of the company for over two decades. The ratings also derive comfort from ASM's reputed client base of leading players in their respective product segments.

The ratings, however, remain constrained by the relatively modest scale of operations limiting ASM's operational flexibility and competitive position. The ratings are also constrained by the high client and end-user industry concentration risks, as ASM's top five customers contributed ~82% to its total revenues in FY2023. With exports accounting for ~42% of its revenues in 9M FY2024, the company is also exposed to geographic concentration and foreign currency fluctuation risks. Going forward, ASM's ability to achieve significant improvement in its profitability leading to improvement in debt metrics and liquidity position will remain a key rating monitorable.

ICRA also notes that as per the exchange filling dated February 11, 2024, the company has announced the raising of funds totalling Rs. 170.2 crore, comprising fresh equity of Rs. 37.7 crore and warrants issuance of Rs. 132.5 crore on preferential allotment basis. The usage of these funds is yet to be finalised. Timely completion of fund raising and its utilisation, and the resultant impact on the company's credit profile will be a key rating monitorable. ICRA will continue to monitor the same and will take appropriate rating action, as and when required.

The Stable outlook reflects ICRA's expectation that while the revival in ASM's performance is expected to be gradual, it will continue to benefit from the extensive experience of its promoters, its adequate and qualified employee base, and the healthy demand prospects for engineering R&D services in India.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters for more than 20 years in the IT industry – ASM's operations are managed by Mr. Rabindra Srikantan, Managing Director, an MS in Computer Engineering and Computer Science from the University of Louisiana, USA. Mr. Srikantan has over 20 years of experience in the IT Industry and is a member of the National Association of Software and Services Companies (NASSCOM). He has also served as the Chairman of Indo American Chamber of Commerce (IACC), Karnataka, and as National Executive Council Member of Indo-American Chamber of Commerce (IACC).

Reputed client base of leading industry players – The main clients of ASM include reputed customers who manufacture 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 continued revenues for ASM.

Credit challenges

Moderate scale of operations – The Indian IT industry is highly competitive with large and established domestic as well as international players in the field. The company's scale of operations remained moderate at Rs. 157.1 crore in 9M FY2024, restricting the financial and operational flexibility to an extent.

Significant deterioration in financial profile – Despite the company reporting a revenue growth of 15.0% in FY2023, the operating margin of the company was lower than expected and declined by 200bps to 9.5% during FY2023 against 11.5% in FY2022, resulting in moderation in the credit profile of the company and deterioration of its debt metrics and liquidity position. Although ICRA expected recovery in the company's performance during the current fiscal to an extent, the same did not materialize on account of aforementioned factors leading to further deterioration in the credit profile and liquidity position of the company. Total Debt/OPBDITA (excluding leases) increased to 8.7 times as on September 30, 2023, compared to 3.5 times as on March 31, 2023. Furthermore, the interest coverage ratio declined to 0.9 times in H1FY2024 over 2.9 times in FY2023. Going forward, debt metrics are expected to improve marginally with regular amortization of the existing term loans. ICRA also notes the stretched liquidity position of the company, as reflected by the limited buffer available in its working capital limits on a sustained basis over the recent past. ICRA notes that the company has announced the raising of funds totaling Rs.170.2 crore, comprising fresh equity of Rs.37.7 crore and warrants issuance of Rs.132.5 crore on preferential allotment basis. The usage of these funds is yet to be finalized. Timely completion of fundraising and its utilization, and resultant impact on the company's credit profile will be a key rating monitorable. ICRA will continue to monitor the same and will take appropriate rating action as and when required.

High client concentration and end-user industry concentration risks; moderate geographic concentration risk – The company's customer concentration risk remains high with most of its revenues being generated by a few customers. This high revenue dependence accentuates the risk of revenue volatility that may result from client attrition, variations in demand from select clients, or any disruption of client businesses—as currently being witnessed by the company. ASM caters to diverse industries such as semiconductor equipment, hi-tech, telecom, medical equipment, automotive and aerospace, among others. However, semiconductor equipment and telecom industries contributed to most of ASM's revenues in FY2023, exposing it to demand volatilities in these industries. Additionally, although the company has been building capabilities and increasing its offerings, its revenues are highly concentrated under the engineering R&D segment. Also, around ~40-45% of ASM's revenue is derived from export clients. Its high dependence on the US market also exposes it to geopolitical risks. Further, ASM being an export-oriented entity, it is also exposed to foreign currency volatility risk.

Environmental and Social Risks

Environmental consideration: Given its service-oriented business, ASM's direct exposure to environmental risks as well as those emanating from regulations or policy changes are not material.

Social consideration: ASM remains exposed to various social risks, such as data breaches and cyber security issues. This situation could result in higher employee and administration costs and cause reputational damage to the company. Moreover, the profitability of industry players like ASM remains vulnerable to increase in wage costs and availability of skilled manpower.

Liquidity position: Stretched

The company's liquidity position remains stretched, given the minimal cash balances and limited buffer available in its working capital limits of ~Rs. 5.0 crore, as on December 31, 2023. The company has repayment obligations of Rs. 5.8 crore, Rs. 7.2 crore and Rs.8.6 crore during FY2024, FY2025 and FY2026, respectively, for its existing debt. It is expected to incur capex in the range of Rs. 10-11 crore (including the completed acquisition in H1 FY2024) during FY2024, to be mainly funded through term loans. Despite the company receiving proceeds of Rs. 8 crore from its rights issue in Q1 FY2024, the free cash and liquid investments, as on December 31, 2023, remained lower than March 31, 2023, majorly on account of allocation of equity proceeds for inorganic growth and to fund the cash losses in 9M FY2024.

Rating sensitivities

Positive factors – ICRA may upgrade ASM's ratings if the company demonstrates significant improvement in its profitability, debt metrics and liquidity position.

Negative factors – Negative pressure on ASM's rating could arise in case of any further decline in its revenue and margins. Further, ICRA could downgrade the rating in the absence of material improvement in the company's liquidity position and debt metrics. Specific credit metrics, which could result in a rating downgrade include interest cover below 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – IT-software & service
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 IT company that provides consulting and product development services in engineering and product R&D. Its services 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. ASM is in the process of expanding its service offerings and has recently forayed into 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, and consumer electronics. Headquartered in Bangalore, the company has about 1,195 employees providing onsite as well as offsite support services to its clients in the US. The company has a global presence across India, the US, Singapore, the UK, Canada, Mexico and Japan.

Key financial indicators (audited)

ASM Technologies Ltd (Consolidated)	FY2022	FY2023	9MFY2024*
Operating income	191.7	220.4	157.1
PAT	13.9	7.4	-3.5
OPBDIT/OI	11.5%	9.5%	3.1%
PAT/OI	7.3%	3.4%	-2.2%
Total outside liabilities/Tangible net worth (tismes)	1.1	1.3	-
Total debt/OPBDIT (times)	2.3	3.5	-
Interest coverage (times)	3.9	2.9	0.7

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

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 23, 2024	Jul 27, 2023	Jun 08, 2023	Sep 29, 2022	Sep 21, 2021	Aug 20, 2020
1	Cash Credit	Long term	23.64	--	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Interchangeable	Short term	(23.64)	--	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
3	Unallocated	Long term	-	--	--	--	--	--	--	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Cash credit	Simple
Short term – Interchangeable^	Simple

^ The short-term interchangeable limits are sub-limits of the cash credit limits

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. sIt 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 fund-based – Cash credit**	NA	NA	NA	23.64	[ICRA]BB+ (Stable)
NA	**Short term – Interchangeable***	NA	NA	NA	(23.64)	[ICRA]A4+

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

Annexure II: List of entities considered for consolidated analysis

Company Name	ASM Ownership	Consolidation Approach
Subsidiary		
ASM Digital Technologies Inc.	100.0%	Full Consolidation
ASM Digital Technologies Pte Ltd.	100.0%	Full Consolidation
ASM Technologies KK – JAPAN	100.0%	Full Consolidation
RV Forms & Gears LLP	70.0%	Full Consolidation
ASM Digital Engineering Private Limited	100.0%	Full Consolidation
ASM Engineering Pvt. Ltd.	100.0%	Full Consolidation
Step-down Subsidiary		
ASM Digital Technologies Co Limited - Thailand	100.0%	Full Consolidation
ASM Digital Engineering Pvt. Ltd.	100.0%	Full Consolidation
Joint Venture		
ASM HHV Engineering Private Limited	50.0%	Equity Method

Source: Company. As on December 31, 2023.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

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