September 24, 2024

Ajax Engineering Private Limited: Rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash credit	32.00	35.00	[ICRA]AA (Stable); reaffirmed/assigned for enhanced amount
Non-fund based facilities	7.00	14.00	[ICRA]A1+; reaffirmed/ assigned for enhanced amount
Total	**39.00**	**49.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Ajax Engineering Private Limited (AEPL) factors in its established presence in the domestic concreting equipment industry with a strong brand recognition, extensive distribution network and market leadership position in the self-loading concrete mixer (SLCM; concreting segment equipment) with around 75% share[1] in the domestic market. The ratings note 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 investments[2] of ~Rs. 650 crore as on March 31, 2024, most of which are invested in fixed deposits, short-term debt and liquid mutual funds. In absence of major capex and investment plans, the company is likely to remain net debt free and maintain healthy cash and liquid investments.

ICRA notes the healthy growth in AEPL's sales volumes and profitability in FY2024. The sales volumes for its flagship product - SLCM, which account for over 80% of its revenues, witnessed a healthy year-on-year (YoY) growth of 57% to 4,617 units in FY2024.This was backed by strong push on execution of infrastructure projects ahead of the general and select state elections and improvement in the company's geographical reach. In YTD FY2025, the overall industry, saw a moderation in volume growth from July onwards due to low road project awarding and transient impact of monsoon on the overall infrastructure construction activity. While ICRA expects recovery in project awarding and execution pace in H2, delay in the same and the high base may lead to slowdown in growth momentum in FY2025. AEPL saw its operating margins improve to 16.0% in FY2024 (provisional data) from 14.8% in FY2023, driven by operating leverage benefits. Going forward, the demand prospects for the concreting segment remain favourable, aided by the Government's continued thrust on infrastructure development, improving mechanisation levels in projects (especially in rural and semi-urban areas) and increasing concretization (of district roads, gram panchayat roads, internal city roads especially in areas impacted by heavy monsoons). While implementation of BS-V emission norms (effective from January 01, 2025) may impact sales in FY2026, the underlying demand drivers for the concreting equipment segment remain strong, which should support the company's performance.

The strengths are partially offset by the intense competition in the construction equipment industry and susceptibility of AEPL's performance to 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 pertaining to FY2024*

[2] *Investments in financial instruments*

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will sustain its market leadership position in the SLCM segment, even as volumes may witness a YoY growth decline in the near-term. Further, the outlook underlines ICRA's expectation that any incremental capex or investments will be funded in a manner such that it is able to durably maintain its debt protection metrics and strong liquidity.

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 concreting equipment industry with around 75% market share in the SLCM segment. However, the same has moderated from over 80% levels in the last few years, 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 maintains a healthy net worth (viz. ~Rs. 915 crore as on March 31, 2024) and minimal debt on books (~Rs. 8 crore as on March 31, 2024). This has resulted in a comfortable capital structure and strong coverage indicators, as reflected in Total Outside Liabilities/Tangible Net Worth of 0.4 times and interest cover of over 500 times as on March 31, 2024. 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. 650 crore as on March 31, 2024 (up from ~Rs. 450 crore as on March 31, 2023). In absence of any major capex or investment plans, the company is likely to remain net debt free and maintain healthy cash balance.

Credit challenges

Relatively moderate scale of operations with high product concentration - AEPL remains a moderate-sized player as compared to other construction equipment 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 ~8% (in FY2024). 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 – The construction equipment segment is a cyclical industry and 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 rise in raw material and logistic costs, amid intense competition, led to moderation in its operating profitability over the past few years (while improvement seen in FY2024, the same is much lower to historical levels of over 20%). Nonetheless, its return indicators remain healthy with return on capital employed (RoCE) remaining above ~30%. The softening in commodity prices in the recent quarters is a positive. With the forthcoming change in emission norms to CEV-V (scheduled from January 1, 2025, which would be applicable to AEPL's 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 investments of ~Rs. 650 crores as on March 31, 2024 and cushion available in the working capital limits. Its capex plans over FY2025-2026

(~Rs. 100-150 crore) are likely to be met through internal accruals and the company is likely to remain net debt free with free cash and liquid investments of over ~Rs. 450 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 Construction vehicles
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, batching plants, concrete pumps, concrete boom pumps, 3D concrete printers, slip form pavers 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 three manufacturing facilities, at Doddaballapur and Gowribidanur in the outskirts of Bangalore, Karnataka.

Key financial indicators (audited)

AEPL Standalone	FY2023	FY2024*
Operating income	1,151.1	1,740.2
PAT	135.9	226.3
OPBDIT/OI	14.8%	16.0%
PAT/OI	11.8%	13.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	253.1	518.0

*Source: ICRA Research, company; 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	24-SEP-2024	Date	Rating	Date	Rating	Date	Rating
Long term-Cash credit-Fund based	Long Term	35.00	[ICRA]AA (Stable)	23-AUG-2023	[ICRA]AA (Stable)	01-JUL-2022	[ICRA]AA (Negative)	02-JUL-2021	[ICRA]AA (Stable)
				-	-	14-OCT-2022	[ICRA]AA (Negative)	-	-
Short term-Others-Non fund based	Short Term	14.00	[ICRA]A1+	23-AUG-2023	[ICRA]A1+	01-JUL-2022	[ICRA]A1+	02-JUL-2021	[ICRA]A1+
				-	-	14-OCT-2022	[ICRA]A1+	-	-
Unallocated limits	Long Term	-	-	-	-	01-JUL-2022	[ICRA]AA (Negative)	02-JUL-2021	[ICRA]AA (Stable)

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	35.00	[ICRA]AA (Stable)
NA	**Non-fund based facilities**	NA	NA	NA	14.00	[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- Not applicable

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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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