

July 27, 2023

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]BBB- (Stable) downgraded from [ICRA]BBB (Stable)
Short-term – Interchangeable^	(23.64)	(23.64)	[ICRA]A3 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

The rating revision considers the moderation in the credit profile of ASM Technologies Private Limited (ASM/ the company) given the contraction of its profit margins, and deterioration of its debt metrics and liquidity position. Moreover, ICRA expects the same to sustain, going forward. Though ASM reported a revenue growth of 15.0% in FY2023, its operating margin was lower than expected and declined by 200bps to 9.5% during FY2023 against 11.5% in FY2022. This was majorly on account of higher employee expenses due to industry-wide wage inflation and higher raw material prices under the company's manufacturing segment. Decline in operating margin paired with higher interest cost on account of increased debt and rising interest rate environment impacted the net profit margin, which declined by 390bps to 3.4% during FY2023 against 7.3% during FY2022. ASM's total debt increased to Rs. 61.0 crore as on March 31, 2023, against Rs. 45.1 crore as on March 31, 2022, wherein term debt increased by Rs. 13.4 crore and working capital debt by Rs. 2.4 crore. Term debt was higher than expected with the ongoing capex going towards setting up a manufacturing facility in Chennai in addition to acquiring a Scandinavian company. The rating revision also considers the deterioration in the 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 and the recurring revenues from them, lending stability to its revenues to some extent.

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 ~35% of its revenues in FY2022, the company is also exposed to geographic concentration and foreign currency fluctuation risks. Going forward, ASM's ability to achieve sustained improvement in its profitability leading to improvement in debt metrics and liquidity position would be a key rating monitorable.

The Stable outlook reflects ICRA's belief that ASM 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 National Executive Council Member of Indo-American Chamber of Commerce (IACC).

Reputed client base of leading industry players; recurring revenues from major clients lends stability to revenues – 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 recurring revenues for ASM. Also, ASM has established strong relationships with its clients over the decades and revenues from its clients have been continuously increasing over the years.

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. 220.4 crore in FY2023, restricting the financial and operational flexibility to an extent.

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. The high dependence of its revenue on a few customers accentuates the risk of revenue volatility that may result from client attrition, variations in demand from select clients, or any disruption of client businesses. 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 the majority of ASM’s revenues in FY2023, exposing its revenues to demand volatilities in these industries. Additionally, although the company has been investing in building capabilities and increasing its offerings, its revenues are highly concentrated under the engineering R&D segment. Also, around ~35% of ASM’s revenue is derived from export clients, while the rest comes from the domestic market. 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.

Moderation in financial profile and liquidity position – Although ASM reported 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. This was majorly on account of higher employee expenses due to industry-wide wage inflation and higher raw material prices under the company’s manufacturing segment. The higher raw material prices were also a result of the company’s inability to claim customs duty exemption due to the absence of a required license, but with the application for the license now submitted, impact of raw material prices on the operating margin is expected to mitigate to an extent. Decline in operating margin coupled with higher interest cost due to increased debt levels and rising interest rate environment impacted the net profit margins of the company. Total debt (excluding leases) increased to Rs. 61.0 crore as on March 31, 2023, against Rs. 45.1 crore as on March 31, 2022, wherein term debt increased by Rs. 13.4 crore and working capital debt by Rs. 2.4 crore, leading to moderation of debt metrics during FY2023. Incremental term debt was majorly allocated towards the ongoing capex for setting up a manufacturing facility in Chennai. The Net Debt/OPBDITA (excluding leases) increased to 2.6 times as on March 31, 2023, compared to 1.8 times as on March 31, 2022. Furthermore, the interest coverage ratio declined to 2.9 times during FY2023 over 3.9 times during FY2022. Going forward, debt metrics are expected to improve marginally with regular amortization of the existing term loans. ICRA also notes the deterioration

in the 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.

Environmental and Social Risks

Environmental consideration: Given the service-oriented business, ASM's direct exposure to environmental risks as well as those emanating from regulations or policy changes is 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, profitability of industry participants, including ASM, remains vulnerable to increase in wage costs and availability of skilled manpower.

Liquidity position: Stretched

The company's liquidity position remains stretched with average working capital utilisation remaining close to 100% (against the drawing power) for the 12-month period ending June 2023. The company has a repayment obligation of Rs. 7.0-7.6 crore per annum over the next three fiscal years at a consolidated level in addition to capex outlay of ~Rs. 2-3 crore per annum. Despite the company receiving proceeds of Rs. 8 crore from its rights issue in Q1 FY2024, the free cash and liquid investments as on June 30, 2023, remain similar to March 31, 2023 levels at ~Rs. 5.0 crore. The company's liquidity position remains stretched, given the minimal cash balances and limited buffer available in its working capital limits as on June 30, 2023

Rating sensitivities

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

Negative factors – Negative pressure on ASM's rating could arise in case of further decline in operating margins resulting in weak cash flows on a sustained basis. 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 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Service) Industry
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 segment. The services offered 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. The company 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 both onsite as well as offshore support services to its clients based out of the US. The company has a presence across India and a global presence in the US, Singapore, the UK, Canada, Mexico and Japan.

Key financial indicators (audited)

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

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

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jul 27, 2023	Jun 08, 2023	September 29, 2022	September 21, 2021	August 20, 2020
1 Cash Credit	Long term	23.64	--	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)
2 Interchangeable	Short term	(23.64)	--	[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. 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 fund-based – Cash credit	NA	NA	NA	23.64	[ICRA]BBB- (Stable)
NA	Short term – Interchangeable*	NA	NA	NA	(23.64)	[ICRA]A3

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 Pvt Ltd	100.0%	Full Consolidation
Step-down Subsidiary		
ESR Associates Inc	100.0%	Full Consolidation
Joint Venture		
ASM HHV Engineering Pvt Ltd	50.0%	Equity Method

Source: ASM annual report FY2023

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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.

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Branches



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