

## Ace Manufacturing Systems Limited

Instrument	Amount	Rating Action
	In Rs. Crore	September 2016
Fund Based Limits	13.75 (enhanced from 8.75)	[ICRA]AA- (stable) reaffirmed
Non-Fund Based Limits	44.00 (enhanced from 20.00)	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long-term rating assigned to the Rs 13.75 crore (enhanced from Rs 8.75 crore)<sup>1</sup> fund based bank facilities of Ace Manufacturing Systems Ltd (AMS)<sup>2</sup> at [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long term rating is stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+ (Pronounced ICRA A one plus) assigned to the Rs 44.00 crore (enhanced from Rs 20.00 crore) non fund based facilities of AMS.

The rating reaffirmation takes into account the healthy growth in sales volumes, aided by exports, and the improvement in scale and profit margins in FY2016. AMS's credit risk profile continues to remain healthy characterized by strong capital structure (gearing of 0.03x as on March 31, 2016) and robust coverage indicators (Total Debt/OPBDITA of 0.18x and interest coverage of 53x during FY2016). Given AMS's comfortable cash flows and liquidity profile supported by undrawn working capital limits and substantial liquid investments and cash reserves of Rs 48 crore as on 31<sup>st</sup> March 2016, the company is capable of funding its planned growth and related capital expenditure without significantly leveraging its balance sheet. AMS has a strong market position with an estimated 20% market share by value in FY2016 in the CNC machining centres segment of the machine tools industry. These apart, the ratings also take into account the strong bargaining power enjoyed by the company with its vendors, considerable support from group entities for key components, and strong marketing and after sales services which act as a key differentiating factor as compared to the other players in the industry. AMS's strong focus on R&D and technical capabilities which helps in providing customized solutions to the customers and the strong experience of the promoters in the machine tools industry are other key credit positives that have been factored in by ICRA.

The ratings, however, continue to be constrained by the significant exposure of the company to the cyclical automotive sector which accounted for 55% of the company's sales in FY2016. That apart, the company faces stiff competition from domestic players in the standard machinery segment and from foreign players in the customized machinery segment. ICRA also takes note of the substantial land purchase and capex plans of the company by way of new unit addition at the existing location which will increase the current manufacturing capacity from 1200 units per annum to 3200 units per annum by September 2017. While AMS is comfortably placed to fund the same using available cash balances and internal accruals, ability to ramp up sales volumes in line with the increased capacity would be essential to maintain the profitability and return indicators of the company at healthy levels.

Going forward, AMS's extent of project capex and the funding pattern for the same, apart from the ability to ramp up sales while maintaining profitability in the backdrop of intense competition will be the key rating sensitivities.

### Company Profile

Ace Manufacturing Systems Limited (AMS) 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 centers. The company is a part of the Ace Micromatic Group which is the largest machine tools group in India with Ace Designers as the flagship company of the group. The group has presence in other segments of the machine tools industry such as manufacturing of CNC lathes, milling & grinding machines and other key components which are used in the machine tools industry. AMS has its manufacturing plant located at Peenya Industrial Area in Bangalore.

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>2</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



### Recent Results

During FY2016, the company reported a net profit of Rs. 30.76 crore on an operating income of Rs. 355.04 crore, as against a net profit of Rs. 27.48 crore on an operating income of Rs. 300.44 crore during FY2015.

**September 2016**

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