

## Ace Manufacturing Systems Ltd.

November 27, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	50.00	40.00	[ICRA]AA- (Stable); reaffirmed
Fund-based – Cash Credit	13.75	13.75	[ICRA]AA- (Stable); reaffirmed
Non Fund-based	44.00	44.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>107.75</b>	<b>97.75</b>	

\*- Instrument details are provided in Annexure-1.

### Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 40.00 crore<sup>1</sup> term loans (reduced from Rs. 50.00 crore earlier) and the Rs. 13.75 crore long-term fund-based facilities of Ace Manufacturing Systems Ltd. (AMS)<sup>2</sup> at [ICRA]AA- (pronounced ICRA double A minus). ICRA has also reaffirmed the short-term rating assigned to the Rs. 44.00 crore short-term non fund-based facilities of the company at [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating is 'Stable'.

### Rationale

The reaffirmation of the ratings considers AMS's strong market position with an estimated 20% market share by volume in FY2018 in the CNC machining centres segment of the domestic machine tools industry. The company's sales volume grew at a rate of 22% y-o-y in FY2018 and by 33% in H1 FY2019 backed by the strong demand from the key consuming automotive sector. AMS's financial profile continues to remain healthy characterised by strong capital structure, robust coverage indicators and comfortable liquidity profile on the back of low working capital utilisation and substantial liquid investments. These apart, the ratings also take into account 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 which act as a key differentiating factor as compared to the other players in the industry. AMS's focus on research and development and technical capabilities which helps in providing customised 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 accounts for a substantial portion of the company's sales. That apart, the company faces competition from domestic players in the standard machinery segment and from foreign players in the customised machinery segment. ICRA also takes note of the expected moderation in the capital structure and coverage indicators in the near term owing to the debt funded capital expenditure (capex) being undertaken by the company for the capacity expansion, although at an absolute level, the same are expected to remain healthy. Further, the company is also in the process of acquiring additional land for further expansion in the future which may weaken its currently healthy liquidity position. AMSL's

<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

ability to complete the capex without any cost or time overruns and achieve ramp up sales volumes while maintaining the profitability and return indicators will remain critical from credit perspective.

## Outlook: Stable

The Stable outlook reflects ICRA's expectations that AMS will continue to benefit from the extensive experience of the promoters and its leading market position in the domestic machine tool industry. Given the stable demand outlook for machining centres and enhanced capacity being operational, the company is expected to witness healthy revenue growth. The outlook may be revised to Positive, if the company achieves substantial growth in revenues while maintaining its strong capital structure and healthy liquidity profile. The outlook may be revised to Negative, if cash accruals are lower than expected or if any higher than anticipated debt funded capex weakens the debt coverage indicators of the company.

## Credit strengths

**Leading manufacturer of CNC machining centres** – AMS is one of the largest players with an estimated 20% market share in the horizontal and vertical machining centre market in India. AMS's technical capabilities and the long experience of the promoters in the machine tools industry helps it in providing customised solutions to the customers.

**Operational support from group companies**- The company is a part of the Ace Micromatic Group, which has diversified presence in the machine tools industry, with products such as CNC lathes, milling & drilling and grinding machines. Support from group entities for key components, strong marketing and after sales service act as key differentiating factors for AMS as compared to the other players in the industry.

**Healthy volume growth in FY2018 and H1 FY2019** – The company's sales volume witnessed a healthy growth of 22% from 1214 machines in FY2017 to 1484 machines in FY2018 backed by the strong demand from its customers in the automotive sector in addition to growth in the general engineering segment. Further, the company recorded sales of 856 machines in H1 FY2019 vis-a-vis 646 machines in H1 FY2018. With strong growth in H1 FY2019, healthy order book and enhanced capacity being operational, AMS is expected to achieve ~30-35% volume growth in FY2019.

**Strong capital structure and coverage indicators** -The company's capital structure and coverage indicators remain robust owing to healthy profitability and low reliance on external debt. Despite the recent debt funded capacity expansion undertaken by the company, the capital structure and coverage indicators are expected to remain healthy backed by strong internal accruals.

## Credit weaknesses

**High exposure to the automotive sector** – Sales to the automotive sector is the highest contributor to the revenues of the company and accounted for ~67% of the total sales volume in FY2018. The demand profile of the company depends significantly on the performance and capex cycles of the sector and any slowdown in the sector can adversely impact the company's revenue.

**Intensely competitive nature of Indian Machine Tool industry** – The company faces stiff competition from domestic players in the standardised machinery segment and from imports in case of high value-added specialised and customised products.

**Considerable capex outlay** - The company has recently undertaken capacity expansion at its existing location to enhance its capacity from 1200 units per annum to 3200 units per annum with a capital outlay of Rs. 78.00 crore out which Rs. 73.00 crore had been incurred till September 30, 2018. The same was funded by a term loan of Rs. 40.00 crore and remaining through internal accruals. The company is also in the process of acquiring additional land for future expansion

plans, expected to be largely funded by internal accruals and liquid investments which may weaken its currently healthy liquidity position. Further, the company is also likely to incur capex for the purchase of plant & machinery worth Rs. 20.00 crore in FY2019 to be funded by internal accruals. AMSL's ability to complete the capex without any cost or time overruns and achieve ramp up sales volumes while maintaining the profitability and return indicators will remain critical from credit perspective.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

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. 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 with an installed capacity to manufacture 1200 machines. The company has undertaken a capex by way of new unit addition at the existing location which has increased the manufacturing capacity from 1200 units per annum to 3200 units per annum from January 2018.

### Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	417.0	511.8
PAT (Rs. crore)	33.3	39.4
OPBDIT/ OI (%)	11.8%	12.4%
RoCE (%)	26.4%	26.6%
Total Debt/ TNW (times)	-	0.0
Total Debt/ OPBDIT (times)	-	0.2
Interest coverage (times)	35.7	52.1

Source: AMS

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2018 (Rs Crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017
					Nov 2018	Oct 2017	Oct 2016	Sep 2015
1	Term Loans	40.00	35.55	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-
2	Cash Credit	13.75	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Non fund-based	44.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2017	-	FY2023	40.00	[ICRA]AA- (Stable)
NA	Cash Credit	-	-	-	13.75	[ICRA]AA- (Stable)
NA	Non Fund-based	-	-	-	44.00	[ICRA]A1+

Source: AMS

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 71501120

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**R Srinivasan**

+91 44 45964315

[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Ritika Periwal**

+91 80 49225562

[ritika.mundhra@icraindia.com](mailto:ritika.mundhra@icraindia.com)

**Shikha Goyal**

+91 80 49225500

[shikha.goyal@icraindia.com](mailto:shikha.goyal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents