August 30, 2019

ASM Technologies Limited: Ratings reaffirmed at [ICRA]BBB-(Stable)/ A3

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Cash Credit	9.80	12.00	[ICRA]BBB- (Stable); reaffirmed
Long Term - Unallocated	13.84	11.64	[ICRA]BBB- (Stable); reaffirmed
Short Term – Interchangeable^	(10.80)	(13.52)	[ICRA]A3; reaffirmed
Total	**23.64**	**23.64**	

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

*Instrument Details are provided in Annexure-1

Rationale

The ratings consider the extensive experience of the promoters in the IT industry and the established presence of ATL with presence of over two decades. The ratings take comfort from ATL's healthy capital structure and coverage indicators with minimal debt on its books and the comfortable liquidity position supported by liquid investments. The ratings also derive comfort from the reputed client base of the company consisting of leading players in their respective product segments and the recurring revenues from these clients lending stability to its revenues to some extent. Also, the expected income from the recently acquired customers and new service offerings enhances the revenue visibility going forward.

The ratings, however, remain constrained by the decline in operating profitability of ATL over the last four quarters, marked by operating losses in Q1 FY2020. The ratings are also constrained by the modest scale of operations, coupled with tepid revenue growth in the last few fiscals, limiting ATL's operational flexibility and competitive position. ICRA also takes note of the high segment concentration with increased focus on engineering and product R&D services. However, healthy demand prospect for engineering R&D (ER&D) segment within the IT-BPM industry in India, provides some comfort. The ratings are also constrained by the high client concentration and user industry concentration as top-three customers contributed to more than 85% of the revenues in FY2019. With the US accounting for ~77.60% of the revenues, the company is also exposed to high geographic concentration risk and foreign currency fluctuation risks.

Outlook: Stable

The 'Stable' outlook reflects ICRA's belief that ATL will continue to benefit from the extensive experience of its promoters and the healthy demand prospects for ER&D services in India. The outlook may be revised to 'Positive' if the company is able to scale up its operations significantly and improve its profitability, while diversifying its client, industry and geographic base. Conversely, the outlook may be revised to 'Negative' if there is any decline in profitability or in case of any debt funded business acquisitions that may weaken its liquidity position and/or capital structure.

Key rating drivers

Credit strengths

Longstanding experience of the promoters for more than 20 years in the IT industry – ATL's operations are managed by Mr. Rabindra Srikantan, Managing Director, who is an MS in Computer Engineering and Computer Science-University of Louisiana, USA. Mr. Srikantan has over 20 years of experience in the IT Industry and is a member of 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) in the past.

Healthy capital structure and coverage indicators with minimal debt on its books – ATL's capital structure remains healthy with a gearing of 0.3 times as on March 31, 2019. Although the profitability witnessed some moderation, with minimal debt, the coverage indicators reamined healthy, with an interest cover of 9.2 times, NCA/Total Debt of 35.5% and Total Debt/OPBDITA of 2.2 times in FY2019.

Comfortable liquidity position with significant liquid investments and cash in hand - The company had Rs. 24.4-crore cash balance and liquid investments as on March 31, 2019. In the absence of any significant capital expenditure plans and no debt repayment obligations, the liquidity profile remains comfortable.

Reputed client base consisting of leading players in their respective product segments; recurring revenues from clients lends stability to the revenues - The main clients of ATL include reputed players such as Applied Materials Inc- market leader in semiconductor equipment manufacturing, Infloblox – market leader in DNS, DHCP and IP address management (DDI) and Ruckus Wireless (acquired by Brocade Communication Systems), one of the leading manufacturers of wireless LAN 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 revenues for ATL. Also, ATL has established strong relationship with these clients over its decade-old association and the revenues from these clients have been continuously increasing over the years.

Credit Challenges

Modest scale of operations limits operational flexibility and competitive position - The Indian IT industry is highly competitive with the presence of large and established domestic and international players. There are over 1,500 Indian firms operating in the segments of engineering R&D (ER&D), product engineering services and embedded systems. With revenues of Rs. 89.1 crore in FY2019, ATL is a small-sized IT company operating in the ER&D space. The modest scale of operations restricts the company's economies of scale and operational flexibility, thereby limiting its market position and pricing flexibility.

High segment concentration with increased focus on engineering services – Although the company has been investing in building capabilities and increasing its service offerings, its revenues are highly concentrated under the ER&D segment. In July 2018, ATL acquired 70% of RV Forms & Gears LLP, a firm engaged in providing fixtures solutions to machine tool and automobile manufacturers. However, the revenues and profits from the new service lines remain limited as of now, owing to early stages of project execution. Also, the increase in the costs due to acquiring new customers has impacted the ATL's profitability in Q4FY2019 and Q1FY2020.

High client concentration and user industry concentration as top-three customers contributed to more than 85% of the revenues in FY2019 - The company derived around 85% of its revenues from its top-three customers in FY2019. The high dependence on 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 business. ATL caters to diverse industries such as semiconductor equipment, hi-tech, telecom & networking, medical equipment, automotive and aerospace, enterprising storage, consumer electronics, etc. However, semiconductor equipment and telecom & networking industries contributed to more than 90% of the company's revenues in FY2019 exposing the revenues of the company to demand volatilities in these industries.

High geographic concentration risk with US accounting for ~77.60% of the revenues; exposure to foreign currency fluctuation risks - ATL serves as an off shore and onsite software service provider primarily catering to the clients based out of the US. At present about 77.60% of the revenues is derived from US-based clients while the rest is derived from the domestic market. The high dependence on the US market exposes the company to geo-political risks in addition to the high currency volatility risk.

Liquidity Position

ATL's liquidity position remains comfortable in the absence of term loan repayment obligations. The company had cash and liquid investments of Rs. 24.4 crore as on March 31, 2019, supporting its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology – Information Technology (Services) Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASM Technologies Limited. As on March 31, 2019 the company had 4 subsidiaries and 1 step-down subsidiary, which are listed in Annexure-2

About the company:

Incorporated in 1992, ASM Technologies Limited is an Information Technology (IT) company that provides consulting and product development services in the areas of engineering services and product R&D. 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 areas of 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, consumer electronics, etc. Headquartered in Bangalore, the company has about 610 employees providing both onsite as well as offshore support services to its clients based out of the US, UK, Singapore and India. In July 2018, ATL acquired 70% of RV Forms & Gears LLP, a firm engaged in providing fixtures solutions to machine tool and automobile manufacturers.

Key Financial Indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	82.6	89.1
PAT (Rs. crore)	-0.8	7.0
OPBDIT/ OI (%)	2.9%	7.4%
RoCE (%)	5.4%	15.5%
Total Debt/ TNW (times)	0.2	0.3
Total Debt/ OPBDIT (times)	3.3	2.2
Interest Coverage	10.7	9.2
NWC/ OI (%)	23.6%	24.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years					
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Aug 2019	Date & Rating in FY2019 Jun 2018	Date & Rating in FY2018 Feb 2018	Apr 2017	Date & Rating in FY2017 Aug 2016	Apr 2016
1	Cash Credit	Long Term	12.00		[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB @
2	Unallocated	Long Term	11.64		[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3	Term Loan	Long Term	-	-	-	-	-	-	-	[ICRA]BBB @
4	Interchangeable	Short Term	(13.52)		[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+ @
5	Non-fund based	Short Term	-		-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-
6	Fund based	Short Term	-	-	-	-	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+ @

@ - Under watch with negative implications

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

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	Cash Credit	NA	NA	NA	12.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	11.64	[ICRA]BBB- (Stable)
NA	Short Term - Fund based	NA	NA	NA	(13.52)	[ICRA]A3
	Total				**23.64**	

Source: ASM Technologies Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Advanced Synergic Pte Ltd, Singapore	100.0%	Full Consolidation
Pinnacle Talent Inc, USA	100.0%	Full Consolidation
ASM Technologies K K Japan	100.0%	Full Consolidation
RV Forms & Gears LLP	70%	Full Consolidation
Step-down subsidiary		
ESR Associates Inc	100.0%	Full Consolidation

ANALYST CONTACTS

K Ravichandran
+91 44 45964301
ravichandran@icraindia.com

R Srinivasan
+91 44 45964315
r.srinivasan@icraindia.com

Nikhil Mathew
+91 80 49225569
nikhil.mathew@icraindia.com

Viren B Chhabria
+91 80 49225504
viren.chhabria@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

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

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
Website: 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) 2556 0194/ 6606 9999

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 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