August 20, 2020

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	12.00	18.00	[ICRA]BBB- (Stable); reaffirmed
Long Term - Unallocated	11.64	5.64	[ICRA]BBB- (Stable); reaffirmed
Short Term – Interchangeable^	(13.52)	(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 favourably consider the extensive experience of the promoters in the IT industry and the established presence of ASM Technologies Limited (ASM) with presence of over two decades. Further, established customer base with presence of a healthy order book despite the ongoing pandemic lends comfort. ASM was able to revive its profitability over Q4 FY2020 and Q1 FY2021. Steady revenue visibility is expected to aid the company to regain margins and improve debt coverage metrics in the current fiscal.

The ratings, however, remain constrained by the relatively modest scale of operations limiting ASM'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 prospects for Engineering research and development (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 FY2020. With the US accounting for ~86% of the revenues in FY2020, the company is also exposed to high geographic concentration risk and foreign currency fluctuation risks.

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 ER&D services in India.

Key rating drivers

Credit strengths

Longstanding experience of the promoters for more than 20 years in the IT industry – ASM'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.

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 ASM 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 ASM. Also, ASM 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.

Revival of margins over last few quarters, healthy order book and new product profile augur well for FY2021 - ASM's profit booking has depicted a lumpy trend in FY2020 due to higher employee expenses during the Q2FY2020 and Q3FY2020 due to employees being trained for an order received by the company. Order book from key clients continues to remain healthy with an addition of orders from new customers in Q1FY2021 augur well for the company. The q-o-q revenues and operating margins improved from Rs. 22.34 crore and -3.8% in Q3 FY2020 to Rs 26.1 crore and 20% in Q4FY2020 which it has maintained in Q1FY2021 due to healthy order execution.

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. With revenues of ~Rs. 92 crore in FY2020, ASM 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.

Impact on coverage indicators in FY2020, expected to improve going forward – ASM's capital structure is moderate with a gearing of 0.3 times as on March 31, 2020. However, given the drop-in margins over H1 FY2020, ASM's profitability for the full year remained weak. Moreover, higher working capital utilisation to service the new orders received by the company toward H2FY2020 resulted in higher debt and weakening of debt coverage with the interest coverage decreasing from 9.2 times in FY2019 to 1.4 times in FY2020. ASM's ability to achieve the expected revenue ramp up for which it was enhancing its human resources in FY2020 will be crucial for improvement in the debt coverage metrics.

High client concentration and user industry concentration - The company derived around 82% of its revenues from its top-three customers in FY2020. 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. ASM 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 FY2020 exposing the revenues of the company 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 ER&D segment. The company had recently acquired 70% of RV Forms & Gears LLP(RV), a firm engaged in providing fixtures solutions to machine tool and automobile manufacturers. The company along with RV has developed a product known as *Smartfix* which through the use of artificial intelligence and data analytics would be able to optimise the performance of traditional machines. However, the revenues the new service lines remain limited as of now.

High geographic concentration risk with US accounting for ~86% of the revenues; exposure to foreign currency fluctuation risks – Around 86% of ASM's revenue 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. This apart, being an export oriented entity, the company remains exposed to foreign currency volatility risk, though partly hedged through forward contracts.

Liquidity: Adequate

ASM's liquidity position remains adequate. The company had ~Rs. 5.0-crore cash balance as on March 31, 2020 and has received bank limit enhancement to fund additional working capital limits on the back of higher number of orders being received. While the working capital intensity increased in FY2020 on the back of higher receivables and lower creditors, the same is expected to moderate going forward. In the absence of any significant capital expenditure plans and no debt repayment obligations, the liquidity profile remains adequate

Rating sensitivities

Positive triggers – ICRA may upgrade ASM's ratings if the company demonstrates a substantial growth in revenue across a diversified customer base while improving profitability. A ROCE above 13 % on a sustained basis would support the rating upgrade.

Negative triggers – ICRA may downgrade ASM's ratings if the revenue declines on the back of lower order execution or the profitability margins decline and/or results in further elongation of working capital cycle. An interest coverage of below 3 times could lead to a downgrade.

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, 2020 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 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 ~650 employees providing both onsite as well as offshore services to its clients based out of the US India. In July 2018, ASM acquired 70% of RV Forms & Gears LLP, a firm engaged in providing fixtures solutions to machine tool and automobile manufacturers.

For the quarter ended Q1 FY2021, ASM reported a revenue of Rs 27.36 crore and an operating margin of 19.5% as compared to a top-line of Rs. 26.1 crore and an operating margin of 19.8% in the previous quarter.

Key Financial Indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	89.1	92.0
PAT (Rs. crore)	7.0	0.7
OPBDIT/ OI (%)	7.4%	2.6%
RoCE (%)	15.5%	5.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6
Total Debt/ OPBDIT (times)	2.3	9.1
Interest Coverage	9.2	1.4
NWC/ OI (%)	22.1%	33.0%

**Company data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 20-Aug-2020	Date & Rating in FY2020 16-Aug-2019	Date & Rating in FY2019 04-Jun-2018	Date & Rating in FY2018 28-Feb-2018	24-Apr-2017
1	Cash Credit	Long Term	18.00		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long Term	5.64		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Term Loan	Long Term	-	-	-	-	-	-	-
4	Interchangeable	Short Term	(13.52)		[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
5	Non-fund based	Short Term	-		-	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
6	Fund based	Short Term	-	-	-	-	-	-	[ICRA]A3+

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	18.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	5.64	[ICRA]BBB- (Stable)
NA	Short Term - Fund based	NA	NA	NA	(13.52) *	[ICRA]A3
	Total				**23.64**	

Source: ASM Technologies Limited *sub limit of the cash credit limits

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

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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.

For more information, visit www.icra.in

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