

March 26, 2020

Ace Manufacturing Systems Ltd: Ratings reaffirmed, and outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based facilities	13.75	23.75	[ICRA]AA-; reaffirmed; outlook revised to Negative from Stable
Long term: Term loan	40.00	24.45	[ICRA]AA-; reaffirmed; outlook revised to Negative from Stable
Short term: Non-fund-based facilities	44.00	52.00	[ICRA]A1+; reaffirmed
Long term/Short term: Unallocated limits	-	15.55	[ICRA]AA- /A1+; reaffirmed; outlook revised to Negative from Stable
Total	97.75	115.75	

*Instrument details are provided in Annexure-1

Rationale

The revision in rating outlook considers 36.5% degrowth in sales to Rs. 293.31 crore in 9MFY2020 from Rs. 462.1 crore in 9MFY2019 due to decline in orders from its clients in automobile sector. Further, Ace Manufacturing Systems Ltd (AMSL) witnessed significant decline in operating profitability majorly because of under absorption of fixed expenses. This apart, the recent outbreak of Coronavirus (COVID-19) across the globe has potential to impact the automotive industry in India, given the important role played by other countries in the automotive supply chain.

The reaffirmation of the ratings considers AMSL's strong market position with an estimated market share of 19% by volume in FY2020 in the CNC machining centres segment of the domestic machine tools industry. AMSL's financial profile continues to remain healthy characterised by strong capital structure and comfortable liquidity profile on the back of low working capital utilisation and substantial liquid investments. These apart, the ratings also consider 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 high competition from domestic players in the standard machinery segment and from foreign players in the customised machinery segment. Further, the margins are susceptible to raw material price fluctuations as cast iron, stainless steel, MS, CRC/HRC sheets precision bearings, ball screws, couplings, hydraulic & pneumatic elements etc. are majority of the mechanical parts utilised in the production.

The Negative outlook reflects ICRA's opinion that AMSL's sales volume in near term will be affected by the recent COVID-19 outbreak and automobile demand slowdown. The outlook may be revised to Stable if the company reports higher-than-expected accruals from its operations managing the working capital cycle.

Key rating drivers and their description

Credit strengths

Leading manufacturer of CNC machining centres – AMSL is one of the largest players with an estimated 19% market share in the horizontal and vertical machining centre market in India. AMSL'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 AMSL as compared to the other players in the industry.

Strong financial risk profile - AMSL's financial profile continues to remain healthy characterised by strong capital structure and comfortable liquidity profile on the back of low working capital utilisation and substantial liquid investments. The gearing of AMSL stood at 0.11 times as on December 31, 2019 compared to 0.12 times as on December 31, 2018. However, due to decline in profit margins in FY2019 and 9MFY2020, the coverage indicators moderated with TD/OPBIDTA at 0.44 times, interest coverage at 7.94 times, NCA/TD at 31.45%, DSCR to 2.41 times during 9MFY2020 from TD/OPBIDTA at 1.33 times, interest coverage at 23.41 times, NCA/TD at 132.20%, DSCR to 11.11 times in FY2019.

Established relationship with clients and low customer concentration- The company has established relationship with many of its clients such as Suzuki Power Train India Ltd, Bosch Limited, Bajaj Motors, Endurance Group etc. The customer concentration of the company has been historically low which works to the company's advantage. In FY2019 and 9MFY2020 the top five clients of the company contributed only 10% and 11% of the company's total revenues

Credit challenges

Decline in scale of operations & margins due to slowdown in orders from auto sector clients – In 9MFY2020, the company's witnessed 36.5% degrowth in sales to Rs. 293.31 crore from Rs. 462.1 crore in 9MFY2019 due to automobile demand slowdown. The order inflow in 9M FY2020 weakened to 803 machines as against 1468 machines in 9M FY2019. Further, the operating margin declined to 7.03% in 9MFY2020 compared to 12.51% in 9MFY2019 because of higher employee expenditure and other fixed overhead costs.

High exposure to the automotive sector – Sales to the automotive sector is the highest contributor to the revenues of the company and accounted for ~62% of the total sales volume in FY2019 and 53% in 9M FY2020. 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.

Liquidity position: Strong

The fund flow operations had declined significantly in 9MFY2020 because of drop in scale of operations. However, the liquidity position of the company is strong with free cash & mutual fund investments of Rs. 46.56 crore as on December 31, 2019. On account of recent volatile market conditions after outbreak of Corona virus, the company had sold most of the MF investments and deposited as FDs. The average fund-based limit utilisation stood at 15% for the last 21 months ending March 2020. The company has moderate debt obligation of Rs. 8.89 crore in FY2020 and land purchase plans of ~Rs. 10.0 crore

Rating sensitivities

Positive triggers – Given the Negative outlook, rating upgrade is unlikely in the near term. However, ICRA could change AMSL’s outlook to “Stable” if there is an improvement in industry scenario resulting in strong order inflow and sustained improvement in its scale of operations & profitability levels.

Negative triggers – Negative pressure on AMSLs ratings could arise if the industry outlook continues to remain negative resulting in weak order inflow and shrinking scale of operations, affecting the profitability, or deterioration of liquidity position from the current levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

AMSL 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 centres. 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 3200 machines.

In FY2019, the company reported a net profit of Rs. 54.50 crore on an OI of Rs. 654.83 crore, as compared to a net profit of Rs. 41.05 crore on an OI of Rs. 509.72 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	509.72	654.83
PAT (Rs. crore)	41.05	54.50
OPBDIT/OI (%)	12.35%	13.67%
RoCE (%)	26.49%	28.62%
Total Outside Liabilities/Tangible Net Worth (times)	0.49	0.54
Total Debt/OPBDIT (times)	0.16	0.44
Interest Coverage (times)	50.37	23.41
DSCR	36.60	11.11

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					26-Mar-2020	27-Nov-2018	30-Oct-2017	12-Oct-2016
1	Fund based: Working capital loans	Long Term	23.75	-	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Term loan	Long Term	24.45	24.45	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-
3	Non fund based	Short Term	52.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Long term/Short term	15.55	-	[ICRA]AA-(Negative)/A1+	-	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	Nov 2018	NA	-	13.75	[ICRA]AA-(Negative)
NA	Packing credit	Nov 2019	NA	-	10.00	[ICRA]AA-(Negative)
NA	Term loan	Mar 2018	NA	FY2023	24.45	[ICRA]AA-(Negative)
NA	Non Fund based – 1	Nov 2018	NA	-	29.00	[ICRA]A1+
NA	Non Fund based – 2	Nov 2019	NA	-	23.00	[ICRA]A1+
NA	Unallocated	-	NA	-	15.55	[ICRA]AA-(Negative)/A1+

Source: AMSL

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