September 29, 2022

ASM Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	23.64	23.64	[ICRA]BBB(Stable); reaffirmed
Short Term – Interchangeable^	(23.64)	(23.64)	[ICRA]A3+; reaffirmed
Total	**23.64**	**23.64**	

**Instrument details are provided in Annexure-1, ; ^ The short-term interchangeable limits are sub-limits of the cash credit limits*

Rationale

The assigned ratings continue to consider the extensive experience of the promoters in the IT industry and the established presence of ASM Technologies Limited (ASM) for over two decades. The ratings also derive comfort from ASM's reputed client base of leading players in their respective product segments and the recurring revenues from them, lending stability to its revenues to some extent. The ratings also factor in the healthy revenue growth of 49.3% and 39.5% in FY2021 and FY2022, respectively, on the back expansion of orders from customers. Further, the company achieved a revenue of Rs. 50.9 crore in Q1 FY2023, a YoY growth of 22.3%. ICRA expects ASM to continue its growth momentum in FY2023.

The ratings, however, remain constrained by the relatively modest scale of operations limiting ASM's operational flexibility and competitive position. ICRA also notes the high segment concentration with most revenues being generated by the service segment. However, the company is focusing on increasing its revenue from its product segment to diversify its segment concentration. The ratings are also constrained by the high client concentration and end-user industry concentration risks, as ASM's top three customers contributed to 57% of its revenues in FY2022. With exports accounting for ~47% of its revenues in FY2022, the company is also exposed to high geographic concentration and foreign currency fluctuation risks. The operating margin declined to 11.5% in FY2022 and 10.6% in Q1 FY2023 from 13.2% in FY2021 due to higher employee expenses and other overhead costs. Moreover, higher working capital requirements following healthy improvement in scale of operations resulted in higher working capital utilisation in FY2022 and Q1 FY2023, leading to moderation of debt coverage indicators to a certain extent. Going forward, ASM's ability to achieve revenue ramp up while maintaining healthy margins will be crucial for improving its debt coverage metrics. Moreover, the company is expected to incur a capex of ~Rs. 10.0 crore for setting up a manufacturing facility in Chennai in the current fiscal, funded by equity raised through rights issue and internal accruals. The trend in ASM's cash accruals and the timing of the balance equity infusion through right issue to fund the capex would a key rating monitorable.

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 Engineering R&D services in India.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters for more than 20 years in the IT industry – ASM's operations are managed by Mr. Rabindra Srikantan, Managing Director, an MS in Computer Engineering and Computer Science from the University of Louisiana, USA. Mr. Srikantan has over 20 years of experience in the IT Industry and is a member of the 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 of leading industry players; recurring revenues from major clients lends stability to revenues – The main clients of ASM include reputed customers who manufacture semiconductor equipment and network 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 recurring revenues for ASM. Also, ASM has established strong relationships with its clients over the decades and revenues from its clients have been continuously increasing over the years.

Healthy revenue growth momentum in FY2021 and FY2022 – The company achieved a healthy revenue growth of 49.3% and 39.5% in FY2021 and FY2022, respectively. The revenue in FY2022 doubled to Rs. 191.7 crore from Rs. 92.0 crore in FY2020 on the back expansion of orders from its existing customers and addition of revenue from the new customers. Subsequently, the company posted healthy operating margins in FY2021 and FY2022 over past levels, in line with its increased scale. However, with higher working capital utilization, given the increasing scale, there was some moderation in debt coverage metrics in FY2022. Going forward, with 22.3% YoY revenue growth and continued healthy operating margin in Q1 FY2023, ICRA expects the company to continue its growth momentum in FY2023.

Credit challenges

Moderate scale of operations – The Indian IT industry is highly competitive with large and established domestic as well as international players in the field. The company's scale of operations remained moderate at Rs. 191.7 crore in FY2022, restricting the financial and operational flexibility to an extent. However, the operating income is expected to grow at a healthy growth rate in FY2023 on the back of increased orders from existing customers.

High client concentration and end-user industry concentration risks; moderate geographic concentration risk – The company's customer concentration risk remains with majority of revenues derived from few customers in FY2022, in-line with past trends. The high dependence of revenue from 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 , medical equipment, automotive and aerospace, among others. However, semiconductor equipment and telecom industries drove ASM's revenues in FY2022, exposing its revenues 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 engineering R&D segment. Also, around 47% of ASM's revenue is derived from export clients, while the rest comes from the domestic market. The high dependence on the US market exposes the company to geopolitical risks. Further, ASM being an export-oriented entity, it is also exposed to foreign currency volatility risk.

Moderation in debt protection metrics in FY2022 – ASM's capital structure is moderate with a gearing of 0.8 time as on March 31, 2022. However, given the drop in margins in FY2022 due to higher employee expenses and other overhead costs, ASM's operating margin declined to 11.5% in FY2022 and 10.6% in Q1 FY2023 from 13.2% in FY2021. Moreover, higher working capital utilisation to service orders resulted in higher working capital utilisation and moderation of debt coverage with the interest coverage decreasing to 3.9 times in FY2022 from 6.4 times in FY2021. The net debt/OPBITDA increased to 2.0 times in FY2022 from 1.6 times in FY2021. ASM's ability to achieve expected revenues with healthy margins will be crucial for improving its debt coverage metrics.

Liquidity position: Adequate

The company's liquidity position remains adequate with cash and bank balances of Rs. 7.1 crore as on March 31, 2022, and undrawn working capital limits of Rs. 4.4 crore as June 30, 2022. The average working capital utilisation remained moderate at 72.4% for the 12-month period ending June 2022. The company is expected to incur a capex of ~Rs. 11.0 crore for its new Chennai facility and maintenance capex in FY2023. Moreover, it has a repayment obligation of Rs. 3.0-

3.6 crore per annum over the next three fiscals. The company's liquidity position remains adequate, given the current cash balances and debt repayments for FY2023. However, the trend in ASM's cash accruals and the timing of the balance equity raised through right issue to fund the capex in the current fiscal would be a key rating monitorable.

Rating sensitivities

Positive factors – ICRA may upgrade ASM's ratings if the company demonstrates a substantial growth in revenue across a diversified customer base, while improving its profitability on a sustained basis.

Negative factors – Negative pressure on ASM's rating could arise in case of decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Further, ICRA could downgrade the rating if there is any delay in executing the capex or cost overruns in capex leading to weakening of coverage indicators or liquidity profile. ICRA could also downgrade the rating if interest coverage is below 3.5 times on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Service) Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the Consolidated financials of ASM.

About the company

Incorporated in 1992, ASM Technologies Limited is an 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. Headquartered in Bangalore, the company has about ~1,195 employees providing both onsite as well as offshore support services to its clients in the US.

Key financial indicators (audited)

ASM Technologies Ltd (Consolidated)	FY2021	FY2022
Operating income (Rs. crore)	137.4	191.7
PAT (Rs. crore)	8.6	13.9
OPBDIT/OI	13.2%	11.5%
PAT/OI	6.3%	7.3%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	1.8	2.1
Interest coverage (times)	6.4	3.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					September 29, 2022	September 21, 2021	August 20, 2020	August 30, 2019	August 16, 2019
1	Cash Credit	Long term	23.64	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Interchangeable	Short term	(23.64)	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3
3	Unallocated	Long term	-	-	-		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument Name	Complexity Indicator
Long Term - Cash Credit	Simple
Short Term – Interchangeable^	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	23.64	[ICRA]BBB (Stable)
NA	Short Term – Interchangeable*	NA	NA	NA	(23.64)	[ICRA]A3+

Source: *Company, * sub-limits of the cash credit limits*

Annexure II: List of entities considered for consolidated analysis

Company Name	ASM Ownership	Consolidation Approach
Subsidiary		
ASM Digital Technologies Inc	100.0%	Full Consolidation
ASM Digital Technologies Pte Ltd	100.0%	Full Consolidation
ASM Technologies KK Japan	100.0%	Full Consolidation
RV Forms & Gears LLP	70.0%	Full Consolidation
ASM Digital Engineering Pvt Ltd	100.0%	Full Consolidation
Step-down Subsidiary		
ESR Associates Inc	100.0%	Full Consolidation
Joint Venture		
ASM HHV Engineering Pvt Ltd	50.0%	Equity Method

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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.

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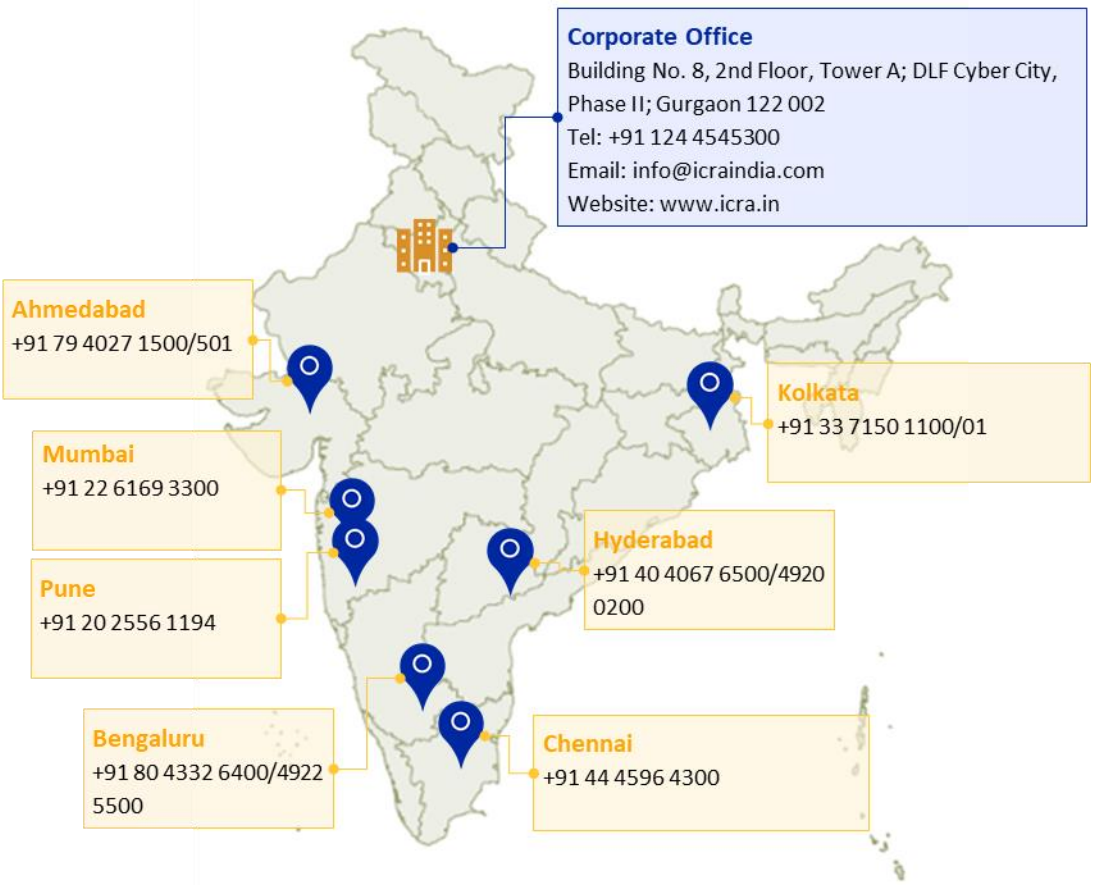

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