

Alpha Design Technologies Private Limited

January 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	475.80	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Short term Bank Facilities	5.20	CARE A2 (A Two)	Assigned
Total Facilities	481.00 (Rs. Four hundred Eighty one crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Alpha Design Technologies Private Limited (ADTL) derives strength from its long and established track record as defense offset partner with company demonstrating its capability in timely execution of the project in diversified segments and possesses strong technical know-how via technology tie-ups as well as in-house R&D facilities. Recent equity infusion from Adani Defense Systems and Technologies Limited (Adani Defense) has enhanced the company's financial flexibility and enabled it to bid for high value projects. The strategic equity infusion is also expected to aid the growth momentum which otherwise would have been restricted as these projects involve significantly high lead time between product development and winning an order, necessitating regular capital allocation for product development/upgradations and financial resilience to see through the development stage, with the risk of orders not getting materialized. Adani Defense is a wholly owned subsidiary of Adani Enterprises Limited (rated CARE A/ CARE A1; under credit watch with developing implications) which acquired 26% stake in company in December 2018 for Rs. 400 crore and by virtue of Board control, ADTL is a subsidiary of Adani Defense. The rating also derives strength from healthy and diversified order book position of the company alongwith pipeline of projects in development stage. With increasing order book size and billing related issues due to Covid-19, ADTL's inventory and receivables increased significantly resulting in negative cashflow from operations for the period ended March 31, 2020. Nevertheless, such increased requirement was largely funded with equity funding and reliance on incremental debt has been minimal. Further, project cashflows have been healthy during the current fiscal and would be monitored closely. The ratings of the company are tempered by its declining PBDIT margins and consequently RoCE due to varying mix of the projects executed as well as high operating cycle of the company. Going forward, timely execution of its order book, manage investments in new project pipeline and improve profitability as envisaged while reducing the operating cycle will be key to its prospects.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Consistent improvement in scale of operations and sustenance of PBDIT margins of more than 18% and TOL/TNW<1

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Continuing negative cash flow operations translating to increase in gearing levels beyond 1x.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy track record & strong relationships with various important defence organisations: ADTL has been operating in the defence sector for the past 15 years. Col. (Retd.) H. S. Shankar, Chairman and MD holds a ME degree from IISC, Bangalore and has more than 45 years of experience in the defence field with 22 years in the Indian Army and eight years as Director (R&D) with BEL.

Over the years, the company has established itself as one of the key defence manufacturers in India with proven ability to deliver projects on time. ADTL has also developed healthy relationship with key Indian defence organizations like BEL, Hindustan Aeronautics Limited, Defence Research and Development Organization (DRDO) and CRPF etc.

The company has also operated as an offset partner (mandatory for international defence manufacturers supplying to the Ministry of Defense, GoI as per the government's Defence Procurement Policy) with leading international defence manufacturers such as Elbit Systems Limited (Israel), Israel Aerospace Industries (Israel) etc. on numerous equipment supply projects.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Importance of Alpha Design to Adani group's defense venture: Adani group through Adani Defense operates into defense and aerospace segment with key focus in the area of unmanned aerial vehicles, rotary platforms for helicopters, small arms and ammunitions etc. though its presence is limited. In order to grow into the space, it acquired 26% stake in ADTL. ADTL with more than 15 years of experience possesses required technical skills competencies. Going forward, Adani Defense is expected to act as an Indian system integrator/OEM and ADTL will be its key Tier I supplier.

While the company had developed capabilities over the years to bid for complex and high value of projects but limited financial resources and flexibility to raise funds, restricted the growth. Further, due to relatively lower scale of operations, ADTL was unable to bid for projects for high value projects. With acquisition of stake by Adani Defence and subsequent infusion of funds, ADTL is able to bid project in consortium with Adani Enterprises Limited.

Going forward, Adani group intends to consolidate its defence business in ADTL. During Sep'20, ADTL bought Adani Enterprises' stake in three of its defense companies.

Strong technical know-how via technology tie-ups as well as in-house R&D facilities: ADTL's in-house R&D facility comprises a team with expertise in key technological areas of electronic hardware, electronic software, product design, after sales product support and obsolescence management. The technologies used in the various mechanical and electronic parts are developed in-house by the company.

Over the years the company has also established a series of collaborations for designing and manufacture of defence equipment, component production, assembly, integration and warranty support for defence equipments. Some of the collaborations include that with IAI, Israel and collaboration agreements with different international companies based in Germany and UK for technology transfers. Tie-ups with Indian Defence research organisations include those with Defence Avionics Research Establishment (DARE), Defence Electronics Research Laboratory, Instruments Research & Development Establishment (IRDE) etc., for collaboration on defence equipment and technology research.

Through a combination of in-house development and through technology collaborations, ADTL has acquired significant technical knowhow for its products in defence electronics. Technological capabilities of company include manufacturing of Opto Electronics & Fire Control, Electronic/ mechanical warfare systems, Communication systems, simulators, radar etc.

Healthy order book position with long term orders in hand: On back of healthy biddings and demonstrated ability to develop and deliver new products, ADTL has built up sizeable order book of more than Rs. 4400 as of October 31, 2020. Most of the projects are long term projects (5 to 20 years of duration) which is expected to provide steady state cashflows to the company over the years.

Key Rating Weaknesses

Significantly high lead time between product development and winning an order: Being a defense product manufacturer, ADTL's products undergo rigorous testing before a final order is awarded. The entire process to win an order & begin commercial production takes about 1 – 1.5 years, in addition to product development (between RFI & RFP) which itself can take about 2-3 years. This necessitates regular capital allocation for product development/upgradations and financial resilience to see through the development stage, with the risk of orders not getting materialized. It is therefore important for company to continuously invest in new products and have healthy project pipeline in RFI/RFP stages. Nevertheless, comfort is drawn from strong pipeline of projects in various development stages which is expected to translate into confirmed orders in medium to long term.

Improving scale of operations but declining profitability margins: Aided by increasing defense spends and corresponding business opportunities for defense offset manufacturing companies, ADTL's income grew from Rs. 208 crore in FY18 to Rs. 238.1 crore in FY19 and further to Rs. 346 crore in FY20. However, despite the growth, company PBDIT margins have been declining as more material intensive orders were being executed. Further, due to high competition and L1 factor, margins are relatively low in domestic projects. Nevertheless, profitability of the company is likely to improve in coming years following addition of several high margin business.

Elongated operating cycle and negative cashflow from operations: There has been significant increase in inventory levels and receivable position of ADTL as on March 31, 2020 as the pre-delivery inspection could not be carried out due to lockdown imposed in the month of March 2020. The same resulted in increase in WIP from Rs. 18.8 crore as on March 31, 2019 to Rs. 116.5 crore as on March 31, 2020. Further, company's receivables plus unbilled revenue has also increased from Rs. 176.4 crore as on March 31, 2019 to Rs. 292.3 crore as on March 31, 2020 as some of the customers had approved the materials online but requested ADTL to hold onto the inventory. Nevertheless, such increased working capital requirement was largely funded with equity funding and reliance on incremental debt has been minimal. Further, project cashflows have been healthy during the current fiscal and would be monitored closely.

Liquidity: Adequate

Company's working capital (WC) utilization was near full during Mar'20-Aug'20 but has recently received enhancement in WC limits from Rs. 101 crore to Rs. 158.5 crore which along with receipt of customer advances improved its liquidity position. As of December 26, 2020, company has unutilized CC limits of Rs. 126 crore. Company has also not availed moratorium under RBI's Covid-19 regulatory package.

Analytical approach: Standalone along with factoring company being part of Adani group. Also support required to subsidiaries and JVs have been factored in.

Applicable Criteria

[Rating Methodology- Manufacturing companies](#)

[Criteria on assigning 'Outlook' and 'Credit watch' to credit rating](#)

[Financial ratios- Non Financial Sector](#)

[Criteria for Short term instruments](#)

[Liquidity analysis for Non-Financial sector entities](#)

[Consolidation and factoring linkages with ratings](#)

About the Company

Alpha Design Technologies Private Limited (ADTL) was incorporated in 2003 by Col. (Retd.) H.S. Shankar and Vasaka Promoters and Developers Pvt Ltd (VPDPL). VPDPL is an SPV founded by promoters of Murugappa group and Karvy group for investment in their personal capacity in ADTL. ADTL designs & manufactures electronic, electrical, optical and telecommunication equipment for the defence sector. In December 2018, Adani Defence Systems and Technologies Limited acquired 26% stake in ADTL for an amount of Rs. 400 crore.

By virtue of shareholding, ADTL is subsidiary of VPDPL but by way of control over the composition of Board of Directors, it is subsidiary of Adani Defence.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	238.1	346.0
PBILDT	32.3	34.1
PAT	6.4	6.0
Overall gearing (times) @	0.35	0.46
Interest coverage (times)	2.37	2.46

A: Audited | @including customer advances received as part of debt

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based – LT - Term Loan	-	-	-	January 31, 2026	51.40	CARE A-; Stable
Fund-based – LT - Cash Credit	-	-	-	-	176.00	CARE A-; Stable
Non-fund-based - LT - Bank Guarantees	-	-	-	-	248.40	CARE A-; Stable
Fund-based - ST- Working Capital Demand loan	-	-	-	-	5.20	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (12-Oct-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	-	1)Withdrawn (12-Oct-17)
3.	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (12-Oct-17)
4.	Fund-based - LT-Term Loan	LT	51.40	CARE A-; Stable	-	-	-	-
5.	Fund-based - LT-Cash Credit	LT	176.00	CARE A-; Stable	-	-	-	-
6.	Non-fund-based - LT-Bank Guarantees	LT	248.40	CARE A-; Stable	-	-	-	-
7.	Fund-based - ST-Working Capital Demand loan	ST	5.20	CARE A2	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Working capital and Term Loan	Detailed explanation
A. Financial covenants	Adjusted Quasi TNW > Rs. 125 crore TOL/ Adjusted TNW < 2x Interest cover > 2x DSCR > 2x
B. Non financial covenants	The company during the tenor of the Bank's credit facility, will not without the prior permission in writing: a) Resort to any additional borrowings in the company b) Undertake any further capex except being funded by company's own resources c) Effect any change in shareholding pattern and management control in the company d) Diversify in to non-core areas viz. business other than the current business e) Undertake guarantee obligation or extend letter of comfort, on behalf of any other company/ person/ trust/ any 3 rd party.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Working Capital Demand loan	Simple
4.	Non-fund-based - LT-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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