# Ananth Technologies Limited

**March 05, 2021**

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 25.00 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed |
| Long Term / Short Term Bank Facilities | 230.00 (Enhanced from 190.00) | CARE A-; Stable / CARE A2 (Single A Minus; Outlook: Stable/ A Two) | Reaffirmed |
| **Total Bank Facilities** | **255.00 (Rs. Two Hundred Fifty-Five Crore Only)** | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of ratings assigned to the bank facilities of Ananth Technologies Limited (ATL) continues to derive strength from its experienced promoters and management team, long track record of operations and integrated development centres, established and reputed clientele, healthy order book position, stable revenue through lease rentals, satisfactory capital structure and debt coverage indicators, high entry barriers, and favourable industry prospects. The ratings also take into account improvement in total operating income and profitability margins during FY20 (refers to period from April 01 to March 31), ongoing capex in Bengaluru and successful completion of capex in Telangana. The ratings, however, are constrained by elongated operating cycle, client concentration risk and moderate scale of operations. The ratings also take cognizance of impact of COVID-19 on the company's operations.

**Rating Sensitivities**

**Positive Factors:**

- ✓ Ability to bag more orders and improvement in scale of operation with TOI increasing to Rs 300 crore or above while maintaining the PBILDT margin at existing levels, on a sustained basis.
- ✓ Faster realization of outstanding debtors and improvement in working capital cycle to less than 180 days

**Negative Factors:**

- × Decline in PBILDT margin below 25%, on a sustained basis.
- × Elongation of collection period beyond 240 days, going forward.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Experienced promoters and management team:***

Ananth Technologies Limited (ATL) has been promoted by Dr. Subba Rao Pavuluri (CEO) and Mrs. P. Anantha Lakshmi. Dr. Subba Rao Pavuluri has a Master's in Engineering from Indian Institute of Science (IISc), Bangalore and holds a Ph.D from Bangalore University. He promoted ATL in 1992 after working for a decade with the Indian Space Program. He is ably supported by his son Mr. Anurup Pavuluri (Managing Director) who has a Bachelor's degree in computer science Honors from Purdue University, West Lafayette and a Master's degree from Carnegie Mellon University, Pittsburg. Furthermore, the promoters are supported by a well-structured and qualified management team which takes care of the day to day operations.

***Long track record of operations and integrated development centers***

ATL was incorporated in 1992 and has a long track record of more than two decades. The company is engaged in design, development and fabrication of highly sophisticated systems and sub-systems with applications in the aerospace and defense industry. The company designs and develops on board computers, embedded systems, Geographical Information Systems (GIS), Avionics, Radio Frequency (RF) and Microwave communication systems, Telemetry systems, power modules, DC-DC converters, navigation cards, Missile Interface Units (MIUs) etc. The company has four development centers in India and in the USA. In India, the company operates from Hyderabad, Bangalore and Thiruvananthapuram and in the USA company operates from San Jose, California. The company has more than 700 employees with around 350 engineers and 200 technicians.

***Established and reputed clientele albeit client concentration risk***

Functioning in the defense and aerospace industry for close to three decades, the company has established healthy relationships with its customers. The industry experience and established relationship with existing clients has helped the company in procuring contracts from reputed clientele. The clientele of the company however remains a tad concentrated with top five clients contributing to close to 50% of the company's Total Operating Income (TOI) in FY20.

***Steady revenue and profitability through lease rentals:***
ATL receives stable revenue from lease rentals from buildings leased out to a few reputed companies. ATL had developed properties named Ananth Info Park in the prime area of Hyderabad i.e at Hitech City, Madhapur. The Info Park comprises three buildings which are partially leased out to IT and telecom companies like Oracle India Private Limited, Nokia etc. During FY20, lease rentals contributed about 21% to the total operating income of ATL. The company books stable cash flows from the said properties. There is no debt obligation associated with the said properties, thus almost the entire cash flows from the lease rentals directly contribute to the profitability of the company.

***Improvement in total operating income and profitability margins during FY20***
The total operating income of the company has improved by 14.04% y-o-y from Rs.133.91 crore during FY19 to Rs.152.71 crore during FY20 backed by healthy orders from the defence segment. The PBILDT margin of the company also improved from 27.75% during FY19 to 30.22% during FY20 on account of execution of better margin orders, especially from Brahmos. In tandem with the PBILDT margin, the PAT margin of the company improved from 14.28% during FY19 to 15.39% during FY20. During 9MFY21, the company generated a revenue of Rs.121.29 crore with PBILDT of Rs.28.41 crore. (During 11MFY20, revenue: Rs.144.50 crore).

***Healthy Order Book Position:***
The order book position of the company as of December, 2020 stood healthy at Rs.691.62 crore. The order book comprises orders from established defense and aerospace companies in the country. The said order book provides revenue visibility for medium term and translates to 4.53x the total operating income for FY20. The company is expected to execute these orders during FY21-FY24. The order book of the company is dominated by orders from Brahmos pertaining to making of subsystems, on board computers, Missile Interface Units (MIVs), Pulse Code Modulators, Navigational Cards etc.

***Successful completion of capex in Telangana with moderate capital structure and debt coverage indicators***
ATL has successfully completed setting up of a manufacturing facility in Adibatla, Telangana during FY20 at total cost of Rs.33.60 crore, completely funded through internal accruals. Also, ATL has developed another unit in Bangalore funded through internal accruals. The same is expected to be commence operations by Q1FY22.

The capital structure of the company has remained comfortable. The debt profile of the company comprises working capital bank borrowings, hire purchase loans, mobilization advances and unsecured loans from related parties with absence of any term debt. The overall gearing level of ATL, despite increase in working capital bank borrowings and mobilization advances remained comfortable at 0.39x as on March 31, 2020 (0.36x as on March 31, 2019) on account of plough back of profits to reserves.

The total debt to GCA of the company also improved from 6.83x during FY19 to 6.08x during FY20 on account of improvement in cash accruals. The other debt coverage indicator, PBILDT interest coverage ratio, although deteriorated from 5.18x during FY19 to 4.63x during FY20 due to higher finance expenses, remained at comfortable level.

***High entry barriers:***
The company operates in the defense and aerospace industry and is an approved vendor to the Indian space and defense research organisations. ATL is an established player with proven operational track record of over two decades in the design, development, fabrication and supply of systems and subsystems for defense applications. The manufacturing facility of the company is a certified facility for Indian Space Research Organisation (ISRO), Defence Research and Development Organisation (DRDO), Bharat Dynamics Limited (BDL), BrahMos and other research organisations for aerospace and defense production with trained and certified manpower. The ability to qualify as a vendor as well as maintaining the product quality standards as per the requirements of the defense research organisations acts as a high entry barrier for the new entrants into the industry, thereby giving competitive advantage for existing players.

***Favourable industry prospects and support from government***
Outlook for the defense industry is positive with the country spending about 1.63% of its GDP in the defense sector. Defense allocation was increased by Rs.4.78 lakh crore in the Union Budget 2021-22 as against Rs.4.71 lakh crore in previous budget. With the recent Ladakh border standoff with China and increase in defense spending globally, the Government of India is expected to rise the capital outlay for military modernization to equip the military with modern defense platforms and technologies, commercial aerospace sector which is expected to be the driving force behind aerospace and defense industry performance in the coming years.

***Key Rating Weaknesses:***

***Elongated operating cycle***
ATL operates in a business which is highly working capital intensive in nature. The operating cycle of the company continues to remain elongated at 269 days during FY20 (262 days during FY19) primarily on account of high trade receivables and inventory levels inherent to the nature of business. Although the executable tenure of the orders ranges from 3-5 years, the receipt of 30% of advance from the customers (who are primarily Govt. defense bodies) provides necessary cushion for the company to meet its working capital requirements. Post receipt of invoice, the client carries out the necessary tests which spans for about 3 months before approving the invoice, after which the client takes further 2-3 months to release the funds due to which the receivables days are high.

***Moderate scale of operation***
The scale of operations of ATL although improved during FY20 continue to remain moderate with a TOI of Rs.152.71 crore. Also, about 21% of the revenue is contributed from lease rentals and thus revenue from the manufacturing segment remains relatively low. Ability of the company to improve its scale and derive benefits from the capex incurred towards few units located in Bangalore, Adibatla etc. remains important from rating perspective.

**Liquidity: Adequate**
Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Its capex requirements are modular and expected to be funded through internal accruals with no reliance on external debt. Although the working capital cycle is stretched on account of elongated collection and inventory period, company's unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Further, the current and quick ratio of the company stood comfortable at 4.52x and 3.59x respectively as on March 31, 2020. The unencumbered cash and bank balance of the company was Rs.23.93 crore as on March 31, 2020. The average of maximum utilization of fund based working capital limits for the past 12 months ending November 30, 2020 stood comfortable at 37.50%. Also, the company did not avail any moratorium towards debt servicing under RBI's COVID-19 regulatory relief package.

**Analytical approach:** Standalone
**Applicable Criteria:**
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

**About the Company**
Ananth Technologies Limited (ATL) incorporated in 1992 was promoted by Dr. Subba Rao Pavuluri. Dr. Subba Rao Pavuluri. He has promoted ATL in 1992 after working for a decade with the Indian Space Research Program. The company is mainly engaged in the design, development and fabrication of highly sophisticated systems and sub-systems with applications in the aerospace and defense industry. The company is an approved vendor to the Indian space and defense research organisations such as Indian Space Research Organisation (ISRO), Defence Research and Development Laboratory (DRDL), Bharat Dynamics Limited (BDL) etc. Further, the company also generates revenue from IT services and lease rentals from its owned properties (buildings) in Hyderabad.
The manufacturing facilities are ISRO certified facilities for aerospace production with cleanroom, automated production line and trained and certified manpower.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 133.91 | 152.71 |
| PBILDT | 37.16 | 46.16 |
| PAT | 19.12 | 23.50 |
| Overall gearing (times) | 0.36 | 0.39 |
| PBILDT Interest coverage (times) | 5.18 | 4.63 |

*A: Audited*
**Status of non-cooperation with previous CRA:** Not Applicable
**Any other information:** Not Applicable
**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 25.00 | CARE A-; Stable |
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 230.00 | CARE A-; Stable / 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 | 25.00 | CARE A-; Stable | 1)CARE A-; Stable (17-Feb-21)<br>2)CARE A-; Stable (02-Apr-20) | - | 1)CARE A-; Stable (28-Feb-19) | - |
| 2. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 230.00 | CARE A-; Stable / CARE A2 | 1)CARE A-; Stable / CARE A2 (17-Feb-21)<br>2)CARE A-; Stable / CARE A2 (02-Apr-20) | - | 1)CARE A-; Stable / CARE A2 (28-Feb-19) | - |

**Annexure-3: Detailed explanation of covenants of the rated facilities: NA**

**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. | Non-fund-based - LT/ ST-Bank Guarantees | Simple |

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

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