Alpha Design Technologies Private Limited

December 13, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE A-; Stable (Single A Minus; Outlook: Stable); Outlook revised from Positive and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A2 (A Two) and Withdrawn
Total bank facilities	**-**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings of the bank facilities of Alpha Design Technologies Private Limited (ADTL) while revising the outlook of long-term bank facilities to 'Stable' from 'Positive', and simultaneously withdrawn the outstanding ratings of 'CARE A-; Stable/ CARE A2' [Single A Minus; Outlook: Stable/ A Two] assigned to its bank facilities with immediate effect. The above action has been taken at the request of ADTL and 'No Objection Certificate' received from the banks/lenders that have extended the facilities rated by CARE Ratings.

The revision in the outlook from Positive to Stable is on account of moderation in the liquidity profile due to delayed billing in some of the high-value orders for which inspection was delayed. While the inspections are either done or are scheduled shortly, billing and collection might take some time, which might keep WC borrowings at an elevated level.

The ratings of ADTL continue to derive strength from its long and established track record as defence offset partner with company demonstrating its capability in timely execution of the projects in diversified segments with its strong technical know-how via technology tie-ups as well as in-house research and development (R&D) facilities, enhanced financial flexibility of the company with continuing support in the form equity infusion from Adani Defense Systems and Technologies Limited (Adani Defense) enabling it to bid for high-value projects, healthy and diversified order book position of the company. These rating strengths are partially offset by the modest scale of operations and elongated operating cycle of the company.

Detailed description of the key rating drivers

Key rating strengths

Healthy track record and 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 Bharat Electronics Limited (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 organisations like BEL, Hindustan Aeronautics Limited, Defence Research and Development Organization (DRDO), 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.

Importance of Alpha Design to Adani group's defence venture: The Adani group through Adani Defense operates into defence 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 in December 2018. With more than 15 years of experience, ADTL possesses required technical skills competencies.

Prior to the acquisition of stake by Adani Defense, due to relatively lower scale of operations, ADTL was unable to bid for high-value projects due to limited financial resources and flexibility to raise funds, though it had developed capabilities to execute complex and high-value orders over the years. With acquisition of stake by Adani Defense and subsequent infusion of funds, ADTL is able to bid for high-value projects in consortium with Adani Enterprises Limited.

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

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

sales product support and obsolescence management. The technologies used in the various mechanical and electronic parts are developed in-house by the company.
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 the company include manufacturing of Opto Electronics & Fire Control, Electronic/ mechanical warfare systems, Communication systems, simulators, radar, etc.

Healthy order book position: On the back of healthy biddings and demonstrated ability to develop and deliver new products, ADTL continues to maintain sizeable order book of ₹4,224 crore as on September 20, 2022, i.e., 8.1x of the average revenues earned by ADTL in the past three years. Half of the projects are long-term projects having near to 20 years of duration, which is expected to provide steady state cash flows to the company over the years.

Key rating weaknesses

Significantly high lead time between product development and winning an order: Being a defence product manufacturer, ADTL's products undergo rigorous testing before a final order is awarded. The entire process to win an order and begin commercial production takes about 1-1.5 years, in addition to product development (between RFI and 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 materialised. It is therefore important for the company to continuously invest in new products and have healthy project pipeline in RFI/RFP stages.

Continuing modest scale of operations, however, improving profitability margins: ADTL's financial risk profile is characterised by consistent increase in the scale of operations, though it remained modest, and satisfactory capital structure aided by equity infusion from Adani Defense.
The company's revenue grew by 61% from ₹360.2 crore in FY21 (refers to the period April 1 to March 31) to ₹579.3 crore aided by steady improvement in order book and execution of projects. The PBIDT margins continued to be satisfactory at 16.04% in FY22 (FY21: 15.99%, FY20: 8.93%) but is lower than the envisaged level, as billing in several high-margin projects were delayed.

Elongated operating cycle: The operating cycle remains elongated at 280 days in FY22 (290 days in FY21) due to high inventory levels and receivables plus unbilled revenue. The same resulted in increase in WIP from ₹221 crore as on March 31, 2021 to ₹406 crore as on March 31, 2022. The company's receivables plus unbilled revenue has also remained high at ₹244 crore as on March 31, 2022, though improved from ₹314 crore as on March 31, 2021, due to the nature of the business wherein ADTL bills its customers after achieving the agreed milestones. Nevertheless, reliance on incremental debt has been minimal as the increased working capital requirement was largely funded with customer advances received and equity funding.

Liquidity: Adequate

The company's liquidity is marked by healthy gross cash accruals (GCA) of more than ₹55-60 crore as against debt repayment obligations of less than ₹20 crore. Due to receipt of several new orders and delayed billing in some of the existing projects, the company's WC utilisation levels have gone up. The company has applied for enhancement in WC limits, timely sanction of which is critical for maintaining liquidity position.

Analytical approach

Standalone along with factoring company being part of Adani Defense Systems and Technologies Private Limited.

Applicable criteria

Policy on Withdrawal of Ratings
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies

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 a special purpose vehicle (SPV) founded by the promoters of the Murugappa group and the Karvy group for investment in their personal capacity in ADTL. ADTL designs and 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. By virtue of control over the composition of Board of Directors, it is a subsidiary of Adani Defense.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	360.20	579.32	435.78
PBILDT	57.60	92.90	NA
PAT	9.09	42.94	NA
Overall gearing (times)	0.32	0.34	NA
Interest coverage (times)	3.26	4.80	NA

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	-	Withdrawn
Fund-based - LT-Term loan	-	-	-	-	-	Withdrawn
Fund-based - ST-Working capital demand loan	-	-	-	-	-	Withdrawn
Non-fund-based - LT-Bank guarantee	-	-	-	-	-	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	-	-	-	1)CARE A-; Positive (05-Oct-21)	1)CARE A-; Stable (04-Jan-21)	-
2	Fund-based - LT-Cash credit	LT	-	-	-	1)CARE A-; Positive (05-Oct-21)	1)CARE A-; Stable (04-Jan-21)	-
3	Non-fund-based - LT-Bank guarantee	LT	-	-	-	1)CARE A-; Positive (05-Oct-21)	1)CARE A-; Stable (04-Jan-21)	-
4	Fund-based - ST-Working capital demand loan	ST	-	-	-	1)CARE A2 (05-Oct-21)	1)CARE A2 (04-Jan-21)	-

LT/ST: Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

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

Sr. No.	Name of 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 guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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About us:
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