

Ananth Technologies Limited

February 18, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	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	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 instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Ananth Technologies Limited (ATL) continue 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, comfortable leverage and coverage indicators, favourable industry prospects and adequate liquidity. The ratings also consider improvement in total operating income and profitability margins during FY21 (refers to period from April 01 to March 31), successful completion of capex in Bengaluru. The ratings, however, are constrained by elongated operating cycle, client concentration risk and moderate scale of operations.

Rating Sensitivities

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

- ✓ 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.
- ✓ Improvement in operating cycle of the company to less than 200 days in the future on a sustained basis.

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

- ✗ Decline in scale of operations by more than 30% or PBILDT margin falling below 25% in future years.
- ✗ Elongation in operating cycle beyond 300 days.

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 around three decades. The twin offerings of the company include the manufacture of critical aerospace systems and high-value geospatial services. 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 with applications in the aerospace and defence industry. 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 1200 employees with around 350 engineers and 200 technicians.

Stable revenue and healthy margins through lease rentals

ATL had developed three buildings in the Ananth Info Park in one of the prime area of Hyderabad i.e at Hitech City, Madhapur. ATL has partially leased out the premises to technology companies like Oracle India Private limited, Rimini Street India Operations India Pvt. Ltd. etc to the extent of more than 4.74 lakh sq. feet. During FY21, the contribution of rental and maintenance income stood stable at 18.14% to the total operating income (Rs.30.62 crore) as against 21.35% during FY20 (Rs.32.60 crore). ATL receives stable revenue in the form of lease rentals from buildings leased out to these companies. There is no debt obligation associated with the said properties, thus the entire cash flow generated by ATL from the lease rentals after meeting the maintenance expenditure pertaining to same, is utilized to meet its working capital requirements and for any further capex.

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

Improved financial performance in FY21 and 9MFY22

The total operating income of the company has improved from Rs.152.71 crore during FY20 to Rs. 168.81 crore during FY21 registering y-o-y increase of 10.54% backed by y-o-y increase of 14.73% in revenue contribution from aerospace and defence industry (digital systems) primarily on account of execution of orders from BrahMos Aerospace Pvt. Ltd. and Bharat Dynamics. The PBILDT margin of the company remained stable at 29.39% during FY21 (30.22% during FY20) on account of execution of better margin orders, especially from Brahmos. The revenue from rental/maintenance business where margins are higher moderated slightly from Rs.32.60 crore during FY20 to Rs. 30.62 crore during FY21 on account of disruptions due to COVID-19. Further, PAT margin of the company improved by 359 bps from 15.39% during FY20 to 18.98% during FY21 on account of decline in finance expenses. The company's financial performance improved during 9MFY22 as the company reported a revenue of Rs. 144.59 crore with a PBILDT of Rs. 43.57 crore and a PAT of Rs. 27.72 crore.

Successful completion of capex in Bengaluru

ATL has developed another unit (Satellites' Assembly, Integration and Test (AIT)) facility in Bangalore at a total cost of Rs.60.64 crore funded through internal accruals. The same has commenced operations from Q3FY22. Located at the Aerospace Park in Devanahalli, Bangalore this facility caters to satellites up to 2,000 kgs with world class satellites in AIT of around 100,000 sq.ft with extensive facilities. With four bays, the facility is equipped to handle as many satellites simultaneously. Earlier the manufacturing facility of ATL in Bangalore was on leased premises. However, post completion of capex, ATL has shifted from leased premises to the owned property in Bangalore. The said project is expected to generate ~Rs.30 crore during FY22 and ~Rs.60 crore from FY23 onwards.

Comfortable leverage and coverage indicators

The capital structure of the company has remained comfortable. The debt profile of the company comprises primarily of mobilization advances along with working capital bank borrowings, hire purchases, and unsecured loans from related parties with no long-term debt. The overall gearing level of ATL improved to 0.32x as on March 31, 2021 (0.39x as on March 31, 2020) owing to reduction in working capital bank borrowings and mobilization advances coupled with plough back of profits to reserves. The total debt to GCA of the company also improved from 6.08x during FY20 to 4.13x during FY21 on account of improvement in cash accrual levels coupled with reduction in total debt levels. The other debt coverage indicator, PBILDT interest coverage ratio, also improved from 4.63x during FY20 to 9.53x during FY21 due to lower finance expenses.

Satisfactory orderbook position

The order book position of the company as on January 01, 2022 stood at Rs.589.26 crore (as against Rs.691.62 crore as on December 12, 2020). The order book comprises orders from established defence and aerospace companies in the country. The said order book provides revenue visibility for medium term. The company is expected to execute orders on hand during FY22-FY24.

Favourable industry prospects and support from government

Defence allocation is increased to Rs. 5.25 lakh crore as per the Union Budget 2022-23 as against Rs.4.78 lakh crore in previous budget. The Indian government has set the defence production target at US\$ 25.00 billion by 2025 (including US\$ 5 billion from exports by 2025). Also, defence exports in the country witnessed strong growth in the last two years. India's Aerospace & Defence (A&D) manufacturing sector is a strategically critical sector. It is witnessing rapid growth with capital expenditure expected to be about USD 250 billion over the next 10 years with a major of emphasis on 'Make in India'. The A&D manufacturing sector has been identified as one of the most prominent sectors under "Make in India" to realize the USD 5 Trillion economy by 2024.

Furthermore, Union Budget 2022 Defence Allocation will be creating numerous opportunities for new and existing MSMEs in the country focusing on the new policies to institutionalizing, streamlining and simplifying defence procurement procedures to boost the "Aatmanirbhar Bharat" initiative, by promoting indigenous design, development & manufacturing of defence equipment, platforms, systems and sub-systems.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis no repayment obligations because of absence of term debt. Although the working capital cycle is stretched on account of elongated collection and inventory period, company's unutilized bank lines (out of the total sanction CC limit of Rs 25.00 crore about 57% remains unutilised) 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 2.03x and 1.46x respectively as on March 31, 2021. The unencumbered cash and bank balance of the company stood at Rs.27.70 crore as on March 31, 2021 (Rs.20.94 crore as on March 31, 2020).

Key Rating Weaknesses**Elongated operating cycle although moderately shortened in FY21**

ATL operates in a business which is highly working capital intensive in nature. The operating cycle of the company during FY21 although improved, continues to remain elongated at 281 days (325 days during FY20) due to higher inventory and receivable period inherent to business. The company generally receives advances from its customers for production and development of the products which are fully against performance bank guarantee. 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. defence 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 at about 150-250 days. The average collection period of the company stood at 211 days during FY21 having marginally improved from 258 days during FY20. However, the maximum utilization of fund based working capital facilities for last 12 months ended January 31, 2022, remained comfortable at 43.13%.

Moderate scale of operation

The scale of operations of ATL although improved during FY21 continue to remain moderate with a TOI of Rs.168.81 crore. Ability of the company to improve its scale and derive benefits from the capex incurred towards units located in Bangalore, Adibatla etc. remains important from rating perspective.

Client concentration risk

The company has established strong relationships with its clients with its long track record in the defence and aerospace industry for close to three decades. Ananth can, upon customer's request, work with ISRO on all formal and technical aspects to have a completed satellite launched by the ISRO's launch vehicle. The industry experience and established relationship with existing clients has helped the company in procuring contracts from reputed clientele which include- BrahMos Aerospace Private Limited, Bharat Dynamics Limited, ISRO Satellite centre, Bharat Heavy Electricals Limited(BHEL), Hindustan Aeronautics Limited, etc. However, during FY21, the revenue concentration from top five clients of the company in Defence sector stood at 62.60%, thus exposing the company to high client concentration risk.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios –Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Manufacturing Companies](#)

[Service Sector Companies](#)

[Rating methodology for Real estate sector](#)

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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	152.71	168.81	144.60
PBILDT	46.16	49.62	43.57
PAT	23.50	32.04	27.73
Overall gearing (times)	0.07	0.05	-
Interest coverage (times)	4.63	9.53	12.04

A: Audited UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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-Cash Credit	-	-	-	-	25.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Mar-21) 2)CARE A-; Stable (17-Feb-21) 3)CARE A-; Stable (02-Apr-20)	-	1)CARE A-; Stable (28-Feb-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	230.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (05-Mar-21) 2)CARE A-; Stable / CARE A2 (17-Feb-21) 3)CARE A-; Stable / CARE A2 (02-Apr-20)	-	1)CARE A-; Stable / CARE A2 (28-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA**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	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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