Aditya Infotech Limited

April 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	169.81 (Enhanced from 132.61)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	190.00 (Enhanced from 130.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Long Term / Short Term Bank Facilities	80.00 (Enhanced from 50.00)	CARE A-; Stable / CARE A2+	Revised from CARE A-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Aditya Infotech Limited (AIL) continues to take into consideration company's established brand 'CP Plus' in the surveillance equipment distribution business, its country-wide distribution network across India, long standing relationship with reputed suppliers and wide customer base. The ratings further factor in the experienced promoters, improvement in operational performance in FY22 (refers to the period from April 01 to March 31) and 9MFY23 (refers to the period from April 01 to December 31) driven by uptick in demand of surveillance equipment and AIL's comfortable financial risk profile marked by healthy debt coverage indicators. However, these strengths are partially offset by intense competition in the industry, supplier concentration risk and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in revenue with maintenance of profitability margins over 6% coupled with geographical and product diversification.

Negative factors

- Decline in scale of operations with ROCE below 15% on a sustained basis.
- Stretch in its operating cycle beyond 120 days leading to pressure on its liquidity position.
- Any change in its relationship with supplier (Dahua) posing risk for AIL to maintain its market share in India.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall sustain its strong financial risk profile over the medium term. CARE also believes that improvement in cash accruals of the company over medium term shall further support its liquidity profile.

Detailed description of the key rating drivers:

Key strengths

Established brand in the surveillance equipment distribution business: AIL enjoys strong market position in India within electronic security segment (video surveillance), with majority of turnover being contributed by its indigenous brand, 'CP Plus', which is a leading and flagship security and surveillance brand. The company is also engaged in distribution of products of Dahua Technology (under brand name 'Dahua') which is one of the leading global players in 'advanced video surveillance solutions' with operations in over 180 countries. AIL has a long-standing relationship of 14 years with Dahua Technology for which it acts as the exclusive distributor in India. The product profile is though concentrated towards cameras and Digital Video Recorders (DVRs), which contributed ~87% to revenue in FY22 and ~78%% in 9MFY23 but with its strong brand recall AIL is expected to maintain its significant market share in India in the surveillance equipment industry. The company has been making efforts to add product portfolio comprising surveillance software, video door phone, time & attendance recording device, digital door lock, etc but the camera and DVR remain the key products.

Country-wide distribution network in India: The company has a deep penetration in India with more than 7000 channel partners in about 600 towns across India and a network of local service and support at 52 locations, pan India. The distributors are spread across various states including Maharashtra, UP, Delhi, Punjab, Haryana, West Bengal, Chhattisgarh, Orissa, Gujarat, Rajasthan, Kerala, Tamil Nadu, Karnataka, etc.

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

Long standing relation with supplier albeit supplier concentration risk: AIL has a long-standing relation with principal supplier Dahua Technology Limited for which it acts as the exclusive distributor in India. AIL had also entered into 50:50 Joint venture (JV) with Dixon Technologies (India) Limited (CARE A1+) in May'17 for captive manufacturing of security systems including CCTVs & DVRs under 'CP Plus' brand name. The JV, named as AIL Dixon Technologies Private Limited, commenced manufacturing of CCTVs and DVRs in Jan'18. AIL essentially purchases the products manufactured by the JV and then sells it to its customers. The components required for manufacturing of these products are majorly purchased by AIL Dixon from Dahua Technology. Also, income which comes from trading activity to AIL as the exclusive distributor of Dahua's products in India forms around 30%- 40% of AIL's total operating income. Hence, AIL faces supplier concentration risk as more than 80% of supplies come from Dahua Technology (for manufacturing as well as trading activities), though the risk is partially mitigated by longstanding relationship of 14+ years between the two companies. Further, the company had substantial amount of creditors to the tune of Rs.647.34 crore as on March 31, 2022.

Experienced management: AIL's promoters have been engaged in the business of computer software, IT hardware, and security products such as surveillance cameras and scanners for around 26 years, which has led to deep understanding of industry dynamics and technical know-how. The day-to-day business functions at AIL are spearheaded by Mr. Aditya Khemka, Managing Director, who has over twenty years of experience in the Indian Security and Surveillance industry. Mr. Aditya Khemka possesses technical competence and IT educational background. He is ably assisted by a qualified and professional management team with vast experience in the industry.

Improvement in operating performance in FY22 and 9MFY23: The total operating income of the company grew by ~47% to Rs.1633.50 crore in FY22 (PY: Rs.1114.23 crore), though this was preceded by stagnation in TOI (Total operating income) during FY20-FY21 (refers to the period from April 01, 2019 to March 31, 2021) owing to CoVID19 outbreak and its impact on demand as well as supply chain logistic issues. The PBILDT margin of the company improved to 8.24% in FY22 (PY: 5.29%) driven by increase in scale of operations leading to decrease in fixed overheads primarily employee salary and wages as a percentage of total operating income. The same led to improvement in the PAT margin to 5.12% in FY22 (PY: 2.08%). During 9MFY23, the total operating income of the company grew by ~21% to Rs.1672.35 crore (PY: Rs.1382.06 crore). The PBILDT and PAT margin of the company remain moderate during 9MFY23 at 6.07% (PY: 6.05%) and 3.83% (PY: 4.08%) respectively.

Comfortable financial risk profile: The overall gearing of the company remained moderate at 1,08x as on March 31, 2022 (PY: 0.94x). Further, the debt coverage indicators of the company remained healthy as reflected by PBILDT interest coverage and total debt/GCA of 7.00x (PY: 2.16x) and 3.29x (PY: 7.04x) in FY22 respectively.

Key weaknesses

Intense competition in electronic surveillance products industry: Electronic surveillance equipment industry in India is fairly competitive with top 3 brands, viz., CPPlus, Dahua, and Hikvision commanding ~70-75% market share while other brands like Zicom, Panasonic, Bosch, etc. make the remaining 25%. The lack of differentiation in the product offerings made the vendors adopt competitive pricing strategies. Hence, to tackle the competitiveness of the market, AIL has historically invested in building the brand CPPlus (popular actor Salman Khan is AIL's brand ambassador) and its wide distribution network.

Foreign exchange fluctuation risk: Though AIL's sales are almost entirely domestic, it's JV imports 85% of its requirement for CCTV cameras and other materials in unassembled form from China, thus, exposing it to forex risk indirectly. However, the company enters hedging contracts, largely covering currency fluctuation risks. Additionally, AIL follows the policy of considering extra buffer in the 'product costing' in order to hedge any risk of unanticipated adverse movement in forex rates. AIL also remains exposed to geopolitical risks on account of higher indirect dependence on China since the AIL-Dixon JV imports ~80-85% of its supplies from China. While the risk remains, the overall high dependence of the industry on Chinese supplies and the fact that there have been no major supply disruptions provide comfort. The company had reported loss of Rs.0.08 crore (PY: gain of Rs.3.87 crore) due to foreign currency fluctuation in FY22.

Industry Prospects: Government and private entities across the globe are investing in tackling the rising rate of crimes. The electronic security market was valued at ~USD 45 billion in 2022 and is expected to reach USD 68.57 billion by 2026, at a CAGR (Compounded annual growth rate) of ~9% over the forecast period from 2023 to 2026. Revenue-wise, Indian electronic surveillance equipment is ~Rs 4000 - 5000 crore in size and has been growing at mid-teens for the last 3-4 years. 75% of Indian market is dominated by three brands – Hikvision, CP Plus, and Dahua – out of which two are with AIL (one as its own brand and the other as an exclusive distributor). Macro-developments like 'Make in India' and implementation of GST has facilitated the consolidation of the industry in last 4-5 years and has helped organized sector entities like AIL.

Liquidity: Adequate: The liquidity position of the company remains adequate as reflected by scheduled debt repayments to the tune of Rs.10.75 crore in FY24 against projected gross cash accruals of Rs.136.36 crore. Further, average utilization of month end outstanding balance of fund based limits stood ~78% for the trailing 12 months ended December 31, 2022. The company had cash and bank balance to the tune of Rs.146.75 crore as on December 31, 2022. The company is not envisaged to incur any major capex in the near to medium future.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Wholesale Trading
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

Aditya Infotech Limited (AIL), incorporated in 1995, is engaged in providing technology-enabled security and safety solutions with specialization in electronic video surveillance. AIL's indigenous brand, "CP Plus" is one of the leading brands in video security in India with a healthy market share. Its offerings include intelligent video surveillance, analog HD camera, home security, access control & access management solutions, and other accessories. The company is spearheaded by Mr. Aditya Khemka, founder and CEO who holds 29.53% stake in the company, along with his father, Mr Hari Shankar Khemka (39.24%) and his brother Mr Rishi Khemka (30.00%). With 29 offices, 51 service centres, and 700+ employees, the company has 7000+ partners across 600+ towns of India. AIL had entered into JV with Dixon Technologies (India) Limited (rated CARE A1+) in May'17 for manufacturing of security systems including CCTVs & DVRs under 'CP Plus' brand name. The JV, named as AIL Dixon Technologies Private Limited, commenced manufacturing of CCTVs and DVRs in Jan'18. AIL essentially purchases the products manufactured by the JV and then sells it to its customers. AIL has a long-standing relation with principal supplier Dahua Technology Limited for which it acts as the super distributor for India.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	1,114.23	1,633.50	1672.35
PBILDT	55.24	129.47	97.53
PAT	23.16	83.64	64.03
Overall gearing (times)	0.94	1.08	1.03
Interest coverage (times)	2.16	7.00	6.37

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	October, 2023	5.50	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	February, 2028	44.31	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	120.00	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	70.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	80.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	80.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	40.00	CARE A-; Stable / CARE A2+

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	40.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (23-Mar-22)	-	-
2	Fund-based - LT-Working Capital Demand loan	LT	120.00	CARE A-; Stable	-	1)CARE A-; Stable (23-Mar-22)	-	-
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	70.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (23-Mar-22)	-	-
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	80.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (23-Mar-22)	-	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	80.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (23-Mar-22)	-	-
6	Fund-based - LT-Term Loan	LT	5.50	CARE A-; Stable	-	1)CARE A-; Stable (23-Mar-22)	-	-
7	Fund-based - LT-Term Loan	LT	44.31	CARE A-; Stable	-	1)CARE A-; Stable (23-Mar-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Demand loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

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

Note on the 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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