

Ananth Technologies Private Limited

May 24, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|----------------------------------|---------------------------|---------------|
| Long-term bank facilities | 30.00 (Enhanced from 25.00) | CARE A-; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 370.00 (Enhanced from 230.00) | CARE A-; Stable / CARE A2 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Ananth Technologies Private Limited (ATPL) continues to derive strength from its experienced promoters and management team, long track record of operations and integrated development centres across four locations; three in India (Hyderabad, Bangalore, Thiruvananthapuram) and one in The United States (California), established and reputed clientele, healthy order book position providing medium term revenue visibility, stable revenue through lease rentals, comfortable leverage and coverage indicators, and favourable industry prospects. The ratings also take into consideration receipt of sanction of additional working capital limits which is likely to ease the working capital requirements towards execution of the orders in hand.

The ratings are, however, constrained by moderate scale of operations, client concentration risk and elongated operating cycle. ATPL deals with entities related to Defence sector wherein the time taken for approving the products is about 90 days and another three 90 days clearing the bills. This results in realization period of about 180 days from the date of supply of products. Further, ATPL receives ~30% of payment in advance and the balance ~70% is recovered as per the timelines mentioned above resulting in high collection period. In addition to this, ATPL need to maintain high inventory due to longer lead time for raw material and longer process time for manufacturing of the products viz., digital systems.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operation with the total operating income (TOI) increasing to ₹400 crore or above while maintaining the PBILDT margin at the existing levels, on a sustained basis.

Negative factors

- Decline in the scale of operations by more than 30% or PBILDT margin falling below 20% in the future years.
- Deterioration in the overall gearing above 1x, in future.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the extensive experience of the promoters and management in the industry.

Key strengths

Experienced promoters and management team

ATPL is promoted by Dr Subba Rao Pavuluri (CEO) and 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 ATPL in 1992 after working for a decade with the Indian Space Research Program. He is ably supported by his son, 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, Pittsburgh. 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 centres

ATPL 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 total four development centres in India and in

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

the USA. In India, the company operates from Hyderabad, Bangalore and Thiruvananthapuram, while in the USA, it operates from San Jose, California. The company has more than 1,200 employees with around 350 engineers and 200 technicians. CARE Ratings expects that these capabilities would help company in getting more orders in the future.

Stable revenue and healthy margins through lease rentals

ATPL had developed three buildings in the Ananth Info Park in one of the prime areas of Hyderabad, i.e., at Hitech City, Madhapur. ATPL 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 FY22, the contribution of rental and maintenance income stood stable at 15.37% (i.e., ₹31.09 crore) to the TOI as against 18.14% (i.e., ₹30.62 crore) during FY21. As there is no debt obligation associated with the said properties, the entire cash flow generated by ATPL from the lease rentals after meeting the maintenance expenditure pertaining to the same is utilised to meet its working capital requirements and for any further capex. CARE Ratings expects this cash flow to aid company manage its working capital requirements in the future.

Improved financial performance in FY22 and FY23

The TOI in FY22 increased to ₹202.36 crore from ₹165.88 crore in FY21, i.e., a growth of around 22%. The revenue increased mainly due to the increase in the sale of digital systems (On Board Computers [OBCs], Missile Interface Unit [MIU], Pulse Code Modulators [PCM], Navigational Cards, etc.) to ₹154.12 crore in FY22 from ₹123.85 crore in FY21. ATPL has moreover maintained a stable level of PBILDT margin over the years. In FY22, ATPL reported margin of 25.86%, i.e., ₹52.34 crore (FY21: 28.14%, i.e., ₹46.68 crore). The healthy margins are due to executions of better-margin orders, especially from BrahMos and high-margin rental income. Furthermore, the profit after tax (PAT) margin of the company remained consistent at 32.25% during FY22 (in FY21: 32.04%).

As per FY23 provisional financials, ATPL reported TOI of ₹215.49 crore, i.e., growth of 6.49% as compared with TOI reported in FY22. The PBILDT margin was 28.56% as against of 25.86% in FY22, and PAT margin remained constant at 15.24% in FY23 (Prov.) (in FY22 it was 15.99%).

Comfortable leverage and coverage indicators

The capital structure of the company has remained comfortable. The debt profile of the company comprises primarily of mobilisation advances along with working capital bank borrowings and unsecured loans from related parties with no long-term debt. The overall gearing level of ATPL marginally improved to 0.29x as on March 31, 2022 (0.32x as on March 31, 2021) due to consistent healthy profitability. The total debt to gross cash accruals (GCA) of the company also improved from 4.13x during FY21 to 3.58x during FY22 on account of improvement in the cash accrual levels. The PBILDT interest coverage ratio remained consistent at 8.98x during FY22 (during FY21 it was 8.97x). With accretion of profit in the company, the gearing and interest coverage is expected to improve in the medium term.

Satisfactory orderbook position

The order book position of the company as on April 30, 2023, stood at ₹903.54 crore (as against ₹702.88 crore as on December 31, 2022). CARE Ratings notes that the order book comprises orders from established defence and aerospace companies in the country. The said order book provides revenue visibility for the medium term. The company is expected to execute orders on hand during FY23 to FY26.

Favourable industry prospects and support from government

The outlook for the defence industry is stable with defence allocation increasing to ₹5.94 lakh crore in the Union Budget 2023-24, a jump of 13% over the previous year. In the Union Budget 2023-24, the Capital Investment Outlay has been increased steeply for the third year in a row by 33% to ₹10 lakh crore, which would be 3.3% of GDP. This will be almost 3x the outlay in 2019-20. For strengthening Research and Development in Defence, the allocation to Defence Research and Development Organisation (DRDO) has been enhanced by 9%, with a total allocation of ₹23,264 crore in BE 2023-24. The focus of the government on the defence sector is expected to aid better prospects for ATPL.

Key weaknesses

Elongated operating cycle although moderately shortened in FY22

ATPL operates in a business which is highly working capital intensive in nature. The operating cycle of the company during FY22, although improved, continues to remain elongated at 214 days (281 days during FY21) 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 to 5 years, the receipt of 30% of advance from the customers (who are primarily government 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

152 days during FY22 having improved from 211 days during FY21. However, the average utilisation of fund-based working capital facilities for the last 12 months ended April 30, 2023, remained comfortable at around 72%. CARE Ratings expects the operating cycle to improve slightly from the current level in the medium term.

Moderate scale of operation

The scale of operations of ATPL, although improved, during FY22 continues to remain moderate with a TOI of ₹202.36 crore. The ability of the company to improve its scale and derive benefits from the capex incurred towards units located in Bangalore, Adibatla (Hyderabad), etc., remains important from the 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. ATPL can, upon customer's request, work with ISRO on all formal and technical aspects to have a complete satellite launched by the ISRO's launch vehicle. The industry experience and established relationship with the 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 FY22, the revenue concentration from the top five clients of the company in the defence sector stood at 66.64%, thus exposing the company to high client concentration risk.

Liquidity: Adequate

ATPL has adequate liquidity characterised 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, the company's unutilised bank lines (out of the total sanction CC limit of ₹25.00 crore about 23.50% remains unutilised) are more than adequate to meet its incremental working capital needs over the next one year. Furthermore, the current and quick ratio of the company stood comfortable at 1.63x and 1.15x, respectively, as on March 31, 2022. The unencumbered cash and bank balance of the company was ₹8.27 crore as on March 31, 2022, and ₹5.42 crore as on March 31, 2023 (Prov.). During FY22, deposits for purchase of land of ₹22.00 crore were liquidated as the said land was purchased and incorporated in ATPL's books of accounts.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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](#)

[Rating methodology for Real estate sector](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Ananth Technologies Private Limited (ATPL) incorporated in 1992 was promoted by Dr Subba Rao Pavuluri. He has promoted ATPL 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. Furthermore, 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.

Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|------------------------|---------------|--------------------------------|
| Information Technology | Information Technology | IT – Hardware | Computers Hardware & Equipment |

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | March 31, 2023 (UA) |
|----------------------------|--------------------|--------------------|---------------------|
| Total operating income | 165.88 | 202.36 | 215.49 |
| PBILDT | 46.68 | 52.34 | 61.55 |
| PAT | 32.04 | 32.35 | 32.86 |
| Overall gearing (times) | 0.32 | 0.29 | 0.25 |
| Interest coverage (times) | 8.97 | 8.98 | 6.90 |

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-Cash Credit | | - | - | - | 30.00 | CARE A-; Stable |
| Non-fund-based - LT/ ST-Bank Guarantee | | - | - | - | 370.00 | 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 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash Credit | LT | 30.00 | CARE A-; Stable | - | 1)CARE A-; Stable (06-Mar-23) | 1)CARE A-; Stable (18-Feb-22) | 1)CARE A-; Stable (05-Mar-21) 2)CARE A-; Stable (17-Feb-21) 3)CARE A-; Stable (02-Apr-20) |
| 2 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 370.00 | CARE A-; Stable / CARE A2 | - | 1)CARE A-; Stable / CARE A2 (06-Mar-23) | 1)CARE A-; Stable / CARE A2 (18-Feb-22) | 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) |

*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-Cash Credit | Simple |
| 2 | Non-fund-based - LT/ ST-Bank Guarantee | 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.

Contact us

| Media Contact | Analytical Contacts |
|--|--|
| <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ramesh Bob Asineparthi Director CARE Ratings Limited Phone: +91-40-40102030 E-mail: ramesh.bob@careedge.in</p> | <p>Karthik Raj K Director CARE Ratings Limited Phone: +91-80-46625555 E-mail: karthik.raj@careedge.in</p> <p>Niraj Thorat Assistant Director CARE Ratings Limited Phone: +91-40-40102030 E-mail: Niraj.Thorat@careedge.in</p> <p>Purva Budhbhatti Lead Analyst CARE Ratings Limited E-mail: Purva.Budhbhatti@careedge.in</p> |

About us:

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