

Ananth Technologies Private Limited

December 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	50.00 (Enhanced from 30.00)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	450.00 (Enhanced from 370.00)	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) favourably reflect strong orderbook position as on November 15, 2023, which provides medium-term revenue visibility and translates to comfortable order book /total operating income (OB/TOI) of 4.28x for FY23. stable revenue through lease rentals, comfortable leverage and coverage indicators, and favourable industry prospects.

The ratings further derive benefit from stable revenue through lease rentals, comfortable leverage and coverage indicators, and favourable industry prospects. Revenue increased by 6.5% and profitability margins remained high at 28.73% in FY23 as majority of its revenue through design, development and fabrication of highly-sophisticated systems and sub-systems with applications in the aerospace and defence industry (digital systems) which fetch better margins. The capital structure remained comfortable with overall gearing ratio of 0.25x while total debt to gross cash accruals (GCA) of the company improved slightly to 3.26x during FY23.

The ratings also derive comfort from its experienced promoters and management team and healthy operational efficiency with integrated development centres. ATPL, over the years has been designing and developing products and services and has established relationship with reputed organizations like Indian Space Research Organisation (ISRO) Satellite Centre, Vikram Sarabhai Space Centre, BrahMos Aerospace, Bharat Dynamics Limited, Defence Research and Development Organization (DRDO), Directorate of Aircraft Acquisition, Indian Navy etc among others.

The ratings are, however, constrained by elongated operating cycle due to higher inventory and receivable period that is inherent to business, client concentration risk as the revenue concentration from top five clients of the company in defence sector stood at 67%, and moderate scale of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operation with TOI increasing to ₹400 crore or above while maintaining the profit before interest, lease rentals, depreciation and tax (PBILDT) margin at the existing levels, on a sustained basis.
- Improvement in the operating cycle to less than 200 days in the future on a sustained basis

Negative factors

- Decline in scale of operations by more than 30% or PBILDT margin falling below 20% in future years.
- Deterioration in 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.

Detailed description of the key rating drivers:

Key strengths

Long track record of operation under experienced management

ATPL was incorporated in 1992 and has a long standing 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 has around 30 years of experience in providing comprehensive geospatial solutions for its customers. It supports clients from a wide range of domains

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

including utilities, telecom, government and aid agencies, energy and logistics. The company designs and develops onboard 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.

In India, the company operates from three locations viz., Hyderabad, Bangalore and Thiruvananthapuram and in the USA the company operates from San Jose, California. The manufacturing facilities are ISRO-certified facilities for aerospace production with cleanroom, automated production line and trained and certified manpower.

ATPL was promoted by Dr. Subba Rao Pavuluri (CEO) and P. Anantha Lakshmi. Dr. Subba Rao Pavuluri has a Masters in Engineering from IISc, Bangalore and holds a Ph.D. from Bangalore University. He has promoted ATPL in 1992 after working for a decade with the Indian Space Program. He is ably supported by his son Anurup Pavuluri (Managing Director) who has a bachelor's degree in computer science Honours from Purdue University, West Lafayette and a Master degree from Carnegie Mellon University, Pittsburgh Further, they are supported by a well-structured management team which takes care of the day to day operations.

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 FY23, the contribution of rental and maintenance income was ₹31.24 crore (FY22: ₹30.62 crore). The company has stable cash flows from the said property as the building is located at Hi-tech city which is one of the prime locations of Hyderabad. CARE Ratings expects this cash flow to aid the company manage its working capital requirements in the future.

Healthy order book position

ATPL's order book remained healthy at ₹924.78 crore as on November 25, 2023 (as against ₹702.88 crore as on December 31, 2022) majorly contributed by the orders from established defence and aerospace companies in the country to be executed over the next three years. The said order book provides revenue visibility for the medium term and translates to 4.28x of the total revenue for FY23.

Comfortable capital structure

The capital structure of the company has remained comfortable. The debt profile of the company comprises primarily 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 ATPL improved to 0.25x as on March 31, 2023 (0.28x as on March 31, 2022) owing to reduction in mobilization advances coupled with plough back of profits to reserves. The total debt to GCA of the company also improved slightly to 3.26x during FY23 from 3.58x during FY22. The ability of the company to successfully augment its capacities without relying on any major debt and maintaining a conservative capital structure will remain critical from credit and rating perspective.

Favourable industry prospects and support from government

The outlook for the aerospace and defence industry remains stable due to the rising commercial aircraft deliveries and high defence spending. The defence budget had been increased to ₹5.94 lakh crore for 2023-24 as against last year's allocation of ₹5.25 lakh crore. The capital allocations pertaining to modernisation and infrastructure development of Armed Forces has been increased to ₹1.62 lakh crore from ₹1.52 lakh crore budgeted for FY23. Capital allocations are primarily aimed at expenditures that include purchasing new weapons, aircraft, warships, and other military hardware. To give push to domestic enterprises under the 'Aatmanirbhar Bharat', the share of domestic capital procurement, which was earmarked at 68% in FY23, has been enhanced to 75% of the Capital Acquisition Budget of the Defence Services for the FY23-24. The initiative provides better prospects for ATPL in the near term.

Private investments in the sector have seen accelerated growth, however more than 70 per cent of India's space resources are going to come from the non-government sector. Significant market potential across the downstream space tech value chain exists for Indian private sector players. This area has the potential to deliver value-added and scalable solutions to domestic and global markets.

Key weaknesses

Working capital intensive nature of operations

ATPL operates in a business which is highly working capital intensive in nature. After receiving the purchase order from its clients, the company executes the orders pertaining to production of products within three months and for the projects wherein testing, development and production of product is required, the order is generally executed in six months. The percentage of advances varies from client to client, however in general it receives advance to the extent of 30% of order value at the beginning of the order itself. Although the executable tenure of the orders ranges from 3-5 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 three months before approving the invoice, after which the client takes further two to three months to release the funds due to which the receivables days are high at about 150-250 days. The company maintains inventory of 80 to 130 days as operations are complex and technical in nature and remain in WIP until the product is delivered to the customer. The operating cycle of the company during FY23 continues to remain elongated at 214 days (192 days during FY22) due to higher inventory and receivable period inherent to business. However, considering the reputed client base of the company, the risk of debtors going bad is mitigated to a great extent.

Moderate scale of operation

The total operating income of the company has improved from ₹202.35 crore during FY22 to ₹215.5 crore during FY22 registering marginal y-o-y increase of 6%. The ability of the company to improve its scale and derive benefits from the facilities of assembling unit located in Bangalore, remains important from the rating perspective.

Client concentration risk albeit reputed client base

Functioning in the defence and aerospace industry for close to three decades, the company has established relationships with its clients. ATPL has had long standing relationship with majority of the clients like BrahMos Aerospace Private Limited, Bharat Dynamics Limited, ISRO Satellite centre, Bharat Heavy Electricals Limited (BHEL), Hindustan Aeronautics Limited, etc. However, during FY23, the revenue concentration from top five clients of the company in defence sector stood at 67% (i.e., ₹124.72 crores) of TOI (in FY22 it was 78%). Though the company has been able to maintain strong relationship and get repeat business from the client over the years, but the revenue is still exposed to the new tenders floated by this government agencies.

Liquidity: Strong

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., Furthermore, the current and quick ratio of the company stood comfortable at 1.79x and 1.18x, respectively, as on March 31, 2023. The unencumbered cash and bank balance of the company was ₹8.07 crore as on March 31, 2023.

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](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Hardware	Computer hardware & Equipment

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 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.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	202.36	215.50	100.90
PBILDT	52.34	61.91	N.A.
PAT	32.35	32.61	N.A.
Overall gearing (times)	0.29	0.25	N.A.
Interest coverage (times)	8.98	6.42	N.A.

A: Audited UA: Unaudited; N.A.: Not Available 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		-	-	-	50.00	CARE A-; Stable
Non-fund-based - LT/ST-Bank guarantee		-	-	-	450.00	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	50.00	CARE A-; Stable	1)CARE A-; Stable (24-May-23)	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*	450.00	CARE A-; Stable / CARE A2	1)CARE A-; Stable / CARE A2 (24-May-23)	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

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</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>
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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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