Adani Defence Systems and Technologies Limited

June 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	650.00	CARE A+; Stable / CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned long-term and short-term ratings of CARE A+; Stable and CARE A1, respectively, to bank facilities of Adani Defence Systems and Technologies Limited (ADSTL). CARE Ratings has considered consolidated financials of ADSTL while arriving at is rating owing to same line of business of its subsidiaries. All the entities are integral part of its defence and aerospace ecosystem.

Ratings assigned to bank facilities of ADSTL consider strong parentage of Adani Enterprises Limited (AEL, rated CARE AA-; Stable / CARE A1+), strategic partnership with international players, and presence across defence products such as arms, ammunitions, Unmanned Aerial Vehicle (UAVs), Counter Drone Systems (CDS), Loitering Munition and missiles among others. ADSTL's major defence business is categorised in four large segments including arms and ammunition, unmanned aerial vehicles (UAVs)/ Counter Drone Systems (CDS)/ Lotering Munition, missiles and maintenance repair and overhaul (MRO) services. ADSTL on a standalone basis have operations related to UAVs and missiles while balance businesses related to arms and ammunition, and MRO services being carried out in subsidiaries. ADSTL also has strategic investments in minor shareholding in few entities operating in defence space.

Atharva Advanced Systems and Technologies Limited (AASTL) - a JV between ADSTL and Elbit Systems Limited, engaged in UAV manufacturing commenced its operations from FY24. The small arms and small arms ammunition business housed under PLR Systems Private Limited (PSPL) and PLR Systems India Limited (PSIL), respectively. ADSTL's standalone commercial sale operations commenced from FY25. Resultantly, total operating income (TOI) till FY24, was largely dominated by one of ADSTL's subsidiaries - Alpha Design Technology Limited (ADTL) engaged in design, manufacturing and testing electronic, electrical, optical, and telecommunication equipment for the defence sector.

ADSTL's TOI is estimated to have over double in FY25 over FY24 due to the benefit of capex completion at Hyderabad, commencement of operations of small arms ammunition division and strong performance of ADTL. Healthy outstanding order book position across products provide revenue visibility over the near-to-medium term. Ratings also consider moderate leverage and debt coverage indicators which are expected to improve with the ramping up of operations.

However, above strengths are tempered by working capital intensive operations, vulnerability of its operating profitability to raw material price fluctuations, customer concentration risk and significant project risk related to future capex for the defence and aerospace ecosystem. CARE Ratings notes capex for the aerospace and defence shall be executed in a modular fashion over the next 3-5 years and funding or shortfall requirements shall be supported by AEL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial growth in the scale of operations and profitability while efficiently managing its working capital cycle.

Negative factors

- Large debt-funded capex, leading to sustained deterioration in external debt/total profit before interest, lease rentals, depreciation and taxation (PBILDT) to over 2.50x.
- Adverse regulatory changes reducing competitiveness for domestic players.
- Change in stance of support by AEL to ADSTL.
- Deterioration in the credit profile of the ultimate parent – AEL.

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Analytical approach: Consolidated

CARE Ratings has considered consolidated financials of ADSTL considering significant degree of operational, financial and managerial linkages between ADSTL and its subsidiaries. Ratings is also notched-up based on AEL's strong parentage. Entities consolidated in ADSTL are listed under Annexure-6

Outlook: Stable

The outlook is expected to remain stable supported by favourable sector outlook and steady growth in scale of operations. Need based support from AEL is also expected for funding of large-sized capex and meeting exigencies.

Detailed description of key rating drivers:

Key strengths

Strong parentage of AEL

Adani Defence Systems and Technologies Limited is AEL's wholly-owned subsidiary, the Adani Group's flagship company. ADSTL and its subsidiaries are ultimately held by AEL and are parts of the aerospace and defence ecosystem. Considering AEL's significant plans in the defence space, these entities are strategically important to AEL. Since incorporation, AEL has supported ADSTL and its subsidiaries by way of investment in compulsory convertible debentures (CCD) and unsecured loans which are subordinated to the term debt. AEL has also given unconditional and irrevocable corporate guarantee for external debt availed by one of ADSTL's step-down subsidiary for setting-up the manufacturing facility. Considering ADSTL's strategic importance to AEL, CARE Ratings expects AEL to support ADSTL in case of funding requirements.

Healthy outstanding order book position providing near to medium-term revenue visibility

The company on a consolidated basis has a strong orderbook of ₹9,564 crore as on April 2025 providing revenue visibility over next 2years. Orderbook/TOI stands at 5.23x based on FY25 estimated revenues. Majority outstanding orderbook is from Ministry of Defence (MoD) ranging across arms, ammunition, UAV's, missiles and counter drones, among others. ADSTL has also applied for few Request for Proposals (RFPs) in pipeline under emergency list from Ministry of Defence

Growth in scale of operations, healthy profitability and moderate leverage

On consolidated basis, ADSTL reported TOI of ₹625 crore in FY24 against ₹864 crore in FY23. The decline in revenues was considering ADTL's lower revenue due to delay in two major projects amidst geopolitical issues and deferment of few deliveries scheduled for the last quarter of fiscal 2024 to fiscal 2025. For FY25, revenues are estimated to over double driven by revenues from sale of UAVs, missiles, arms and ammunition. ADTL's revenues also increased from ₹538 crore in FY24 to ₹1,037 crore in FY25 owing to healthy order book position. With commencement of operations of medium and large calibre under ASL by November 2025 and stabilisation of operations of small calibre under PSIL, the revenue is envisaged to grow in FY26. The operating margins remained at 17% in FY24 and are expected to improve in FY25 with increase in scale of operations in FY25.

On a consolidated basis, ADSTL had a total debt of ₹1,039 crore as of March 31, 2024, comprising term debt of ₹17 crore, working capital bank borrowing of ₹344 crore, lease liabilities of ₹155 crore and unsecured loans from group companies of ₹522 crore. Adjusted debt (factoring in external bank debt and lease liabilities) to net worth stood at 2.41x as on March 31, 2024. The external debt increased from ₹517 crore to ₹927 crore as on March 31, 2025, owing to term loan availed by PSIL and increase in bank borrowing to fund working capital requirement.

The term debt is expected to increase in FY26 due to the company's ongoing expansion facilities.

Key weaknesses

Project risk associated with large-sized debt-funded capex

The company is in the process of adding new capacity and enhancing its installed capacity at Kanpur plant. The company plans to increase its installed capacity from 150 million rounds per annum to 300 million rounds per annum in the small arms ammunition segment. The facility for large calibre ammunition is under construction and is expected to be operational in FY26. The company has planned capex at its other manufacturing facilities and product specific capex as well. Overall, the company plans to incur capex of ₹5,039 crore in a phased wise manner till FY31. CARE Ratings notes time or cost overrun may strain the liquidity and hence timely support from AEL shall remain a key monitorable going forward.

Elongated working capital cycle

ADSTL operates in a working capital intensive industry, which is a key credit weakness. In FY24, the company's operating cycle stood at an elevated 402 days, primarily driven by high average inventory holding and an average collection period of 411 days

and 166 days, respectively. The elongated production cycle, particularly for complex products such as UAVs and missiles, contributes to this stretched working capital cycle. To fund its operations, the company relies on sanctioned working capital limits. Although this exposes the business to higher liquidity risk, certain structural mitigants are in place. The company receives a 15% advance upon contract signing against a bank guarantee and the balance 85% upon deliveries.

Customer concentration risk along with susceptibility to time and cost overruns in order execution

ADSTL faces significant customer concentration risk, with the Ministry of Defence (MoD) being its primary client. This dependence exposes the company to revenue volatility, especially in the event of reduced defence spending or delays in order placements. The company bids for defence projects floated by the ministry on a fixed-contract basis. ADSTL depends on Defence Research and Development Organisation (DRDO) for technical modifications for orders. Delay in finalisation of technical modifications renders ADSTL liable for damages, weakening its profitability.

Liquidity: Adequate

ADSTL at consolidated level is estimated to have cash and cash equivalent of ₹80 crore as on March 31, 2025. The utilisation of its fund based working capital limits remained at 12.33% in April 2025. ADSTL plans to incur capex of over FY26 to FY31 to be funded through term loan and equity/unsecured loans from sponsor. In case of additional funding requirements same shall be supported by AEL. Considering ADSTL's strategic importance to AEL, CARE Ratings expects AEL to support ADSTL in case of funding requirements.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Aerospace and defence	Aerospace and defence

Incorporated in March 15, Adani Defence Systems and Technologies Limited (ADSTL) is the defence and aerospace arm of Adani Group. ADSTL is a 100% subsidiary of the Adani Enterprises Limited. The company and its subsidiaries is engaged in manufacturing small arms, ammunition (small, medium and large calibre), unmanned aerial vehicles (UAVs), missiles, counter drone systems (CDS), Loitering Munition (LM), electronic warfare systems, missile launch detection systems, military communication systems, microwave and RF systems, simulators among others. The company has manufacturing plant in Kanpur, Gwalior, Bangalore and Hyderabad.

Brief Financials - Consolidated **(₹ crore)**	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	864.49	624.81
PBILDT	27.00	109.00
PAT	(124.20)	(86.13)
Overall gearing (times)	0.93	0.84
Interest coverage (times)	0.39	1.07

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	300.00	CARE A+; Stable / CARE A1
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	350.00	CARE A+; Stable / CARE A1

Annexure-2: Rating history for 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 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Fund-based - LT/ ST-Cash Credit	LT/ST	300.00	CARE A+; Stable / CARE A1				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	350.00	CARE A+; Stable / CARE A1				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ordefence Systems Ltd	Full	Subsidiary
2	Adani Naval Defence Systems and Technologies Limited	Full	Subsidiary
3	Adani Aerospace and Defence Ltd	Full	Subsidiary
4	Alpha Design Technologies Private Ltd	Full	Subsidiary
5	Horizon Aero Solutions Ltd	Full	Subsidiary
6	Agneya Systems Ltd	Full	Subsidiary
7	Carroballista Systems Ltd	Full	Subsidiary
8	Astraeus Services IFSC Ltd	Full	Subsidiary
9	Atharva Advanced Systems and Technologies Limited	Full	Subsidiary
10	PLR Systems Pvt Ltd	Full	Subsidiary
11	PLR Systems (India) Ltd	Full	Subsidiary
12	Adani-Elbit Advanced Systems India Ltd	Full	Subsidiary
13	Flaire Unmanned Systems Pvt Ltd	Full	Subsidiary
14	Alpha-Elsec Defence & Aerospace Systems Pvt Ltd	Full	Subsidiary
15	Alpha-Elettronica Defence Systems Pvt Ltd	Full	Subsidiary
16	Alpha-Tocol Engineering Services Pvt Ltd	Full	Subsidiary
17	Microwave and Optronics Systems Pvt Ltd	Full	Subsidiary
18	Reline Thermal Imaging and Software Pvt Ltd	Full	Subsidiary
19	Kortas Industries Pvt Ltd	Full	Subsidiary
20	Ganga Systems & Technologies Private Limited (Formerly known as Alpha-NtLabs Integrated Solutions Pvt Ltd)	Full	Subsidiary
21	Armada Defence Systems Ltd	Full	Subsidiary

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

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