

Aditya Infotech Limited

March 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	182.61	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	130.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Assigned
Total Bank Facilities	312.61 (Rs. Three Hundred Twelve Crore and Sixty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Aditya Infotech Limited (AIL) derives strength from the company's established brand 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 and AIL's comfortable financial risk profile. However, these strengths are partially offset by working capital intensive nature of operations, intense competition in the industry, supplier concentration risk and foreign exchange fluctuation risk.

Rating Sensitivities

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

- Sustained improvement in revenue with it being in the range of Rs 1800-2000 crore with maintenance of profitability margins over 6% and no deterioration in its capital structure.
- Overall gearing of less than 0.5x on sustained basis

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

- 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

Detailed description of the key rating drivers

Key Rating 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 13 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 90% to revenue in H1FY22 (refers to period from April 1 to September 30) and 86% in FY21 (refers to period from April 1 to March 31) 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, safe, 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.

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 super distributor for India. AIL also had 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

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

Dahua Technology (for manufacturing as well as trading activities), though the risk is partially mitigated by longstanding relationship of 13+ years between the two companies.

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 25 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.

Comfortable financial risk profile

AIL has a comfortable financial profile. The company reported healthy total operating income (TOI) of Rs 1,643 crore in 11MFY22 (refers to period from April 1 to February 28; (H1FY22: Rs 871 crore; H1FY21: Rs 387 crore)), though this was preceded by stagnation of TOI during FY20 and FY21 owing to CoVID19 outbreak and its impact on demand as well as supply chain logistic issues. PBILDT margin was moderate at 5.54% in FY21, though it improved to 6.69% during H1FY22 as impact of CoVID19 outbreak became less severe.

With accretion of profits to the net-worth, the overall capital structure is comfortable with gearing improving to 0.61x as on Sep 30, 2021 from 0.88x as on Mar 31, 2021. With profitability remaining moderate and dependence on external debt remaining limited, interest coverage ratio was healthy at 6.51x during H1FY22 (FY21: 2.53x).

Key Rating Weaknesses

Working capital intensive nature of operations

The company's distribution business is highly working-capital-intensive. The company allows 2.5 – 3-month credit period to its customers due to competitive nature of the industry and avails a 120-days credit period from Dahua. During elongation of collection period on account of the pandemic, the company could accordingly stretch credit period it avails from Dahua. The bargaining power of AIL vis-à-vis Dahua stems from the strategic importance it holds for the latter as its exclusive distributor and procurer of its components.

During FY21, due to the shortage of semiconductor chips, the company was not able to maintain the inventory as per historical levels, resulting in shortening of operating cycle to 69 days (FY20: 103 days). However, it is also noteworthy that during the period of chip shortage, the company could still increase its TOI by covering the purchase position by pre-ordering for as longer duration, thus, alleviating the impact of the shortage.

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.

Liquidity: Adequate

Liquidity of AIL is adequate with current ratio of 1.3x as on Sep 30, 2021 (Mar 31, 2021: 1.3x). Gross Cash Accrual (GCA) for FY22 is expected to be ~Rs 72 crore against repayment obligation of ~Rs 9 crore. Fund-based bank limit utilization was moderate at ~50% for 11 months ended Nov'21. Operations are working capital intensive with elongated collection period of 117 days during FY21 and 123 days during H1FY22, though supported by creditor period of 96 days and 130 days, respectively. Unencumbered cash and cash equivalents position was comfortable at ~Rs 101 cr as on Jan 31, 2022. With building up of inventory the cash is expected to go down.

Analytical approach:

Standalone

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](#)[Factoring Linkages Parent Sub JV Group](#)**About the Company**

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, body temperature measurement products, 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,224.77	1,175.55	871.31
PBILDT	41.96	65.08	58.25
PAT	-0.36	26.49	35.86
Overall gearing (times)	1.68	0.88	0.61
Interest coverage (times)	1.12	2.53	6.51

A: Audited; UA; Unaudited

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 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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Working Capital Demand loan		-	-	-	120.00	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	55.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	50.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Working Capital Demand loan		-	-	-	50.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March, 2023	10.50	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	December, 2022	2.11	CARE A-; Stable

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE A-; Stable / CARE A2+				
2	Fund-based - LT-Working Capital Demand loan	LT	120.00	CARE A-; Stable				
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	55.00	CARE A-; Stable / CARE A2+				
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	50.00	CARE A-; Stable / CARE A2+				
5	Fund-based - LT-Working Capital Demand loan	LT	50.00	CARE A-; Stable				
6	Fund-based - LT-Term Loan	LT	10.50	CARE A-; Stable				
7	Fund-based - LT-Term Loan	LT	2.11	CARE A-; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Minimum DSCR	1.75x
II Maximum TOL/TNW	3.5x
III Minimum Current Ratio	1.33x
B. Non financial covenants	
I Unsecured Loans from promoters	Such loans should be subordinate to bank loans.
II Routing of cash flows	Amount of cash flows routed through the bank should be in the proportion of exposure of that bank to the total bank debt

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: 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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