

Taneja Aerospace and Aviation Limited

April 4, 2019

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|----------------------------|--|---|---|
| Long term Bank Facilities | 36.10 | CARE C; Stable (Single C; Outlook: Stable) | Revised from CARE D (Single D) |
| Short term Bank Facilities | 12.19 | CARE A4 (A Four) | Revised from CARE D (Single D) |
| Total | 48.29 (Rs. Forty Eight crores and Twenty Nine Lakhs only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Taneja Aerospace and Aviation Limited takes into consideration the regularization in the repayment of debt obligations since 4 months.

The ratings further takes a note of long standing experience of the promoters coupled with comfortable order book position, stable revenues from the airfield division and moderate gearing levels.

The ratings however remain constrained on account of client concentration risk, declining income and low profitability leading to constraints on the cash flows and weak debt coverage indicators.

Adequate cash flow generation and timely receipt of lease rentals of its airfield division from Air works India Ltd is a key rating sensitivity. Further continuing to keep default free track record in repayment of debt obligation is a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Regularisation of repayment debt owing enhanced internal control backed by timely receipts of rent

The company since January, 2019 has been regular in servicing the interest and principal. The term loan repayments have been timely mainly on account of restructuring of internal financial control and timely receipts of lease rentals from Airworks India (Engg) Pvt Ltd. Timely servicing of interest and principal in a key rating monitorable.

Stable revenues from Airfield Division

The Airfield Division derives its income from aviation related infrastructure activities. The company owns an airfield, comprising an airstrip, with night landing and hangar facilities, which are leased out to Airworks India (Engg) Pvt Ltd (AWIPL), at Hosur, near Bangalore. It earns revenue by leasing out the facility, along with providing hangar and parking bays to aircrafts. As the facilities have been leased out, TAAL generates stable revenues from the said division. Further, the term loans availed from the company have been secured by future cash flows/ receivables including lease rentals and service charges, thereby ensuring timely servicing of the debt obligations. Receiving the lease rentals on timely basis ensuring timely repayments to financial institutions is a key rating sensitivity.

Experienced Promoters

TAAL has been in the business of manufacturing of aero-structures and aircraft components for over two decades. As a benefit it has a long standing relationship with reputed clientele for AMM division of the likes of Hindustan Aeronautics Limited (HAL), Indian Space Research Organization (ISRO), Aeronautical Defense Academy (ADE), and the Indian Airforce amongst others. It has also started supplying to various international aero structure manufacturing companies such as Rafael Advanced Defense Systems Ltd. (Israel), Sogeclair Aerospace GnbH (Germany), Gulfstream Aerospace Corporation (USA) etc.

Good Order book position in manufacturing division

TAAL's order book position as on October 31, 2018 stood at Rs. 27.36 crores. The said order book comprises of orders from reputed clients such as Hindustan Aeronautics Ltd, Indian Air Force, Air works Engg. Private Limited and the Aeronautical Development Establishment. Other entities include the likes of the Vikram Sarabhai Space Centre and DRDO. The said orders are to be executed over next 2-3 years, providing revenue visibility in the near and medium term. Timely execution of orders while maintaining liquidity is a Key Rating Monitorable.

Key Rating Weaknesses

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Financial risk profile marked by low profitability margin and weak debt servicing indicators:

The Total Income of the company reduced by 15.04% from Rs. 37.55 crores in FY17 to Rs.31.90 crores in FY18. The PAT margin remained low at 0.47% in FY18 (A) down from 1.90% in FY17 (A). Total debt consists of Term Loan of Rs. 32.73 crores and working capital limit of Rs. 2.93 crores. The overall gearing remained stable at 0.40x in FY18 (A) as against 0.41 in FY17 (A).

The collection period of the company improved from 146 days in FY17 (A) to 75 days in FY18 (A), and the creditors period came down to 59 days in FY18 (A) from 171 days in FY17 (A).

While the working capital cycle deteriorated from 66 days in FY17 (A) to 89 days in FY18 (A). The gross cash accruals of the company reduced by Rs.0.54 crores from Rs. 3.75 crores in FY17 (A) to Rs. 3.21 cores in FY18 (A). further generation of adequate cash flow for timely repayment of interest and principle along with other statutory dues is a key rating monitorable.

Customer Concentration Risk

TAAL caters to government organizations, government owned organizations and other private players. More than 50% of the order comes from government entities.

TAAL is thus exposed to customer concentration risk. Any deterioration in the performance of these customers or change in procurement policies is likely to have an adverse impact on the growth.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for financial ratios- Non Financial Sector](#)

About the Company

TAAL headquartered in Bangalore, was established on July 22, 1988 as a private limited company. The company was converted into a public company in April 1994, and got listed on the Pune Stock Exchange (PSE) with its maiden public issue of equity shares. Thereafter, the company was listed on the Bombay Stock Exchange (BSE) on January 15, 2001.

The company currently operates under two business segments within the aviation space, and trading division. The business include: 1) Aircraft Manufacturing and Maintenance Division (AMM) - deals with the designing and manufacturing of tailor made aero components, aero structures, aircraft modifications, maintenance and upgrades. 2) Airfield Division - The company owns an airfield, comprising an airstrip, with night landing and hangar facilities, which is leased out to Airworks India (Engg) Pvt Ltd (AWIPL), at Hosur, near Bangalore. 3) Trading in electrical goods.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 37.55 | 31.90 |
| PBILDT | 8.14 | 7.65 |
| PAT | 0.71 | 0.15 |
| Overall gearing (times) | 0.41 | 0.41 |
| Interest coverage (times) | 1.41 | 1.53 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-----------------------------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Term Loan | - | - | August, 2023 | 29.20 | CARE C; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 6.90 | CARE C; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 12.19 | CARE A4 |

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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | 29.20 | CARE C; Stable | 1)CARE D (22-Nov-18) | 1)CARE D (20-Mar-18) 2)CARE D (08-Dec-17) 3)CARE BB-; Stable (14-Apr-17) | 1)CARE BB- (29-Apr-16) | 1)CARE BB (09-Apr-15) |
| 2. | Fund-based - LT-Cash Credit | LT | 6.90 | CARE C; Stable | 1)CARE D (22-Nov-18) | 1)CARE D (20-Mar-18) 2)CARE D (08-Dec-17) 3)CARE BB-; Stable (14-Apr-17) | 1)CARE BB- (29-Apr-16) | 1)CARE BB (09-Apr-15) |
| 3. | Non-fund-based - ST-BG/LC | ST | 12.19 | CARE A4 | 1)CARE D (22-Nov-18) | 1)CARE D (20-Mar-18) 2)CARE D (08-Dec-17) 3)CARE A4 (14-Apr-17) | 1)CARE A4 (29-Apr-16) | 1)CARE A4 (09-Apr-15) |

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CIN - L67190MH1993PLC071691