

December 30, 2024

## Astra Rafael Comsys Private Limited: [ICRA]BBB+ (Stable)/[ICRA]A2 assigned

### Summary of rating action

| Instrument*   | Current Rated Amount<br>(Rs. crore) | Rating Action                           |
|---|-------------------------------------|---|
| Long term/Short term - Fund based - Cash Credit                         | 90.00                               | [ICRA]BBB+ (Stable)/ [ICRA]A2; Assigned |
| Long term/Short term - Non fund based - Bank Guarantee                  | 65.00                               | [ICRA]BBB+ (Stable)/ [ICRA]A2; Assigned |
| Long term/Short term - Non fund based - Forward Purchase Contract Limit | 5.00                                | [ICRA]BBB+ (Stable)/ [ICRA]A2; Assigned |
| <b>Total</b>  | <b>160.00</b>                       |   |

\*Instrument details are provided in Annexure I

### Rationale

The assigned rating for Astra Rafael Comsys Private Limited (ARC) favourably factors in the established sponsor profile, by virtue of being a 50:49<sup>1</sup> joint venture (JV) between Astra Microwave Products Limited (AMPL) and the Israel-based Rafael Advanced Defense Systems Limited (Rafael) for manufacturing and supply of defence sector products. Its key product profile covers military grade communication systems to the Indian defence agencies. The rating also factors in the track record of timely support of the sponsors through various means covering technical knowledge transfer, securing new orders, product development as well as funding requirements. ICRA is given to understand that the promoters remain committed to provide operational and financial support to the company, in a timely manner, going forward. Further, both the sponsors have extended an irrevocable and unconditional corporate guarantee for working capital facilities availed by ARC in the ratio of their shareholding and agreed to meet any debt servicing obligations of the entity in case of any requirement, which provides comfort. The rating considers the healthy order book position of ~Rs. 525 crore as on December 15, 2024 providing medium-term revenue visibility. Further, the favourable demand prospects for the defence segment coupled with the Government's thrust on indigenisation of defence products, will support the order addition for the company. The rating takes into account the healthy operating margins, given the adequate value addition in the business, which is expected to continue in the medium term, considering the product diversification plans.

The rating is, however, constrained by the moderate scale of operations with revenues at Rs. 236.7 crore in FY2024 and expected revenues of more than Rs. 280 crore in FY2025, supported by the commencement of product supplies in FY2024. The operations are working capital intensive, which is reflected by the high receivable and inventory holding requirements and is funded largely through the extended credit period from its key vendors as well as customer advances, resulting in a leveraged capital structure with TOL/TNW of 7.4 times as on March 31, 2024. Further, the rating is constrained by the high customer concentration risk as it derived more than 50% of its revenues from a single customer and its JV partner, Rafael. Nevertheless, the same is expected to reduce over the medium term with addition of direct orders from various defence public sector undertakings (PSUs) in the medium term.

The Stable outlook on the long-term rating reflects ICRA's opinion that ARC will benefit from the healthy revenue growth, supported by order book position, its product diversification plans and its reputed sponsor profile.

<sup>1</sup> 1% share is held by individuals from AMPL

## Key rating drivers and their description

### Credit strengths

**Operational and financial benefits from strong promoters** – ARC is a JV between AMPL and the Israel-based Rafael with a shareholding of 50% and 49%, respectively. AMPL has a strong technical expertise in the microwave radio frequency applications segment in India for the defence, space and telecommunications segment and has an established track record of more than three decades in executing orders in the domestic and export markets. Rafael has developed and supplied a wide range of high-tech defence systems for air, land, sea, and space applications for the Israeli Defence Forces as well as for customers around the world. The JV company has been formed to fulfil the offset obligations under the Indian defence purchase programme. ARC is supplying military grade communication systems to the Indian defence agencies. Both the sponsors are supporting ARC through technical knowledge transfer, new order inflows and new product developments. Further, the two sponsors have extended an irrevocable and unconditional corporate guarantee for working capital facilities availed by ARC and agreed to meet any debt servicing obligations of the entity in case of any requirements, which remains an area of comfort.

**Adequate order book provides medium-term revenue visibility** – The company has a healthy order book position of ~Rs. 525 crore as on December 15, 2024 providing medium-term revenue visibility. Further, the focus of the Government of India on increasing the share of domestic sourcing in the defence segment and ARC's focus on adding new products to support the order addition augur well for the company.

**Comfortable financial risk profile** – ARC's credit profile is characterised by its debt-free position with adequate free cash balances of Rs. 41.45 crore as on November 29, 2024. With sanction of working capital limits, the interest expense is expected to increase in the medium term. Despite this, the coverage indicators are likely to remain adequate owing to healthy profitability margins. However, the company's leverage (TOL/TNW) is high at 7.4 times as on March 31, 2024 on account of a limited net worth base, coupled with sizeable customer advances and trade payables, primarily from its sponsor companies to fund the capital requirements. The leverage is expected to remain high in the near term.

### Credit challenges

**Working capital-intensive operations** – The company's operations are working capital intensive as reflected by the high receivable and inventory holding requirements. However, the working capital requirements are largely met by a sizeable credit period from its key suppliers, including AMPL as well as Rafael, and mobilisation advances resulting in a leveraged capital structure. The overall working capital cycle is expected to remain high in the medium term due to the inherently long manufacturing cycle and debtor days for defence sector products.

**Moderate scale of operations** – The company's scale of operations is moderate with revenues of Rs. 236.7 crore in FY2024 and expected revenues of more than Rs. 280 crore in FY2025, supported by commencement of product supply in FY2024. At present, it derives majority of revenues from a single product and its ability to diversify the revenue base will be a key rating monitorable in the medium term.

**High customer concentration risk** – ARC has a high customer concentration risk, as it derives more than 50% of its revenues from a single customer and its JV partner, Rafael. However, the customer concentration is expected to reduce over the medium term with ARC bidding for direct orders of various defence PSUs in India, and product diversification.

### Liquidity position: Adequate

The company's liquidity position is adequate, with free cash balance of Rs. 41.45 crore as on November 30, 2024 and adequate cushion in working capital limits. Further, likely enhancement in the working capital facilities is expected to support its scale of operations. ARC has limited capex plans, which is likely to be met from its operational cash flows and promoter support.

## Rating sensitivities

**Positive factors** – ICRA may upgrade the rating if the company witnesses significant revenue growth while maintaining the profitability margins and liquidity position and/or improvement in the credit profile of the sponsor.

**Negative factors** – Pressure on the rating may arise if the company witnesses any significant decline in revenue or profitability, elongation in working capital cycle weakening its liquidity position. Further, any weakening in linkages with the promoters or deterioration in the credit profile of the sponsor could result in a rating downgrade.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>   |
| Parent/Group support            | Parent Company: Astra Microwave Products Limited<br>The rating assigned to ARC factors in the high likelihood of its principal promoter AMPL, extending financial support to ARC because of its strategic importance and explicit presence of unconditional and irrevocable corporate guarantee extended by AMPL towards the working capital facilities (for its 50% ownership share) availed by ARC. |
| Consolidation/Standalone        | Standalone  |

## About the company

Astra Rafeal COMSYS Private Limited (ARC) is a JV between Astra Microwave Products Ltd (AMPL), India and Rafael Advanced Defense Systems Ltd (Rafael), Israel incorporated in August 2015. AMPL holds 50% stake in ARC, while 49% is held by Rafael and the balance 1% is held by individuals from AMPL. In line with the Government's Make in India initiative, the JV was set up to manufacture defense products through technology transfer from the JV partner, Rafael. ARC is engaged in India in indigenous development and integration of high-end digital communication systems. The company has developed a military grade software defined radio (SDR) product and has a manufacturing facility in Hardware Tech-Park, Hyderabad.

## About the sponsors

### Astra Microwave Products Limited:

AMPL was incorporated as a private limited company in 1991 and reconstituted as a public limited company in 1993. It is promoted by Mr. P A Chitrakar, Ms. C Pramelamma and Mr. B Malla Reddy. The company designs, develops and manufactures customised sub-systems and components for microwave communication systems used in defence, space and telecommunication sectors.

### Rafael Advanced Defense Systems Private Limited:

Rafael Advanced Defense Systems Ltd. designs, develops, manufactures and supplies a wide range of high-tech defence systems for air, land, sea, and space applications for the Israel Defence Forces and the Israeli defence establishment, as well as for customers around the world. The company offers its customers a diversified array of innovative solutions at the leading edge of global technology, from underwater systems through naval, ground, and air superiority systems to space systems.

### Key financial indicators (audited)

|  | FY2023 | FY2024 |
|--|--------|--------|
| Operating income                                     | 6.2    | 236.7  |
| PAT  | -5.9   | 24.1   |
| OPBDIT/OI  | -55.8% | 15.9%  |
| PAT/OI   | -95.2% | 10.2%  |
| Total outside liabilities/Tangible net worth (times) | 10.2   | 7.4    |
| Total debt/OPBDIT (times)                            | -0.3   | -      |
| Interest coverage (times)                            | -8.7   | 30.7   |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

| Instrument                                       | Type                 | Current (FY2025) |                              | Chronology of rating history for the past 3 years |        |        |        |        |        |
|--|----------------------|------------------|------------------------------|---|--------|--------|--------|--------|--------|
|  |                      |                  |                              | FY2024  |        | FY2023 |        | FY2022 |        |
|  |                      |                  |                              | Date  | Rating | Date   | Rating | Date   | Rating |
| Fund-based-Cash Credit                           | Long term/Short term | 90.00            | [ICRA]BBB+ (Stable)/[ICRA]A2 | -   | -      | -      | -      | -      | -      |
| Non fund based - Bank Guarantee                  | Long term/Short term | 65.00            | [ICRA]BBB+ (Stable)/[ICRA]A2 | -   | -      | -      | -      | -      | -      |
| Non fund based - Forward Purchase Contract Limit | Long term/Short term | 5.00             | [ICRA]BBB+ (Stable)/[ICRA]A2 | -   | -      | -      | -      | -      | -      |

### Complexity level of the rated instruments

| Instrument  | Complexity Indicator |
|---|----------------------|
| Long term/Short term - Fund based - Cash Credit                         | Simple               |
| Long term/Short term - Non fund based - Bank Guarantee                  | Very Simple          |
| Long term/Short term - Non fund based - Forward Purchase Contract Limit | Very Simple          |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

| ISIN | Instrument Name                 | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook    |
|------|---------------------------------|------------------|-------------|----------|--------------------------|-------------------------------|
| NA   | Cash Credit                     | NA               | NA          | NA       | 90.00                    | [ICRA]BBB+ (Stable)/ [ICRA]A2 |
| NA   | Bank Guarantee                  | NA               | NA          | NA       | 65.00                    | [ICRA]BBB+ (Stable)/ [ICRA]A2 |
| NA   | Forward Purchase Contract Limit | NA               | NA          | NA       | 5.00                     | [ICRA]BBB+ (Stable)/ [ICRA]A2 |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: Not Applicable

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