

June 18, 2021

Alpha Design Technologies Private Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	110.00	-	[ICRA]BBB+ (Stable); reaffirmed and withdrawn
Long Term – Fund Based/TL	52.30	-	[ICRA]BBB+ (Stable); reaffirmed and withdrawn
Short Term – Non-fund Based	102.00	-	[ICRA]A2; reaffirmed and withdrawn
Short Term – Interchangeable	(20.00)	-	[ICRA]A2; reaffirmed and withdrawn
Total	264.30	-	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed and withdrawn the ratings assigned to the long-term and short-term bank facilities of Alpha Design Technologies Private Limited (ADTPL) at the request of the company, based on the no objection certificate (NOC) provided by the banker. This is in line with ICRA's policy on withdrawal of credit ratings.

The ratings positively factor in ADTPL's sizeable unexecuted order book position, along with favourable exports and domestic growth prospects for the Defence industry arising from the Defence Procurement Policy and offset requirements, which provides healthy medium-term revenue visibility. The ratings derive comfort from the company's established project execution track record in the Defence industry and its diversified product profile across segments, besides its technical collaboration with various foreign Defence majors. The ratings draw strength from its established relationship with a reputed clientele in the domestic and international Defence industry.

The ratings derive comfort from the operational/financial flexibility and strategic benefits arising out of being a part of the Adani Group (through Adani Defence Systems and Technologies Private Limited, which acquired 26% shareholding in ADTPL in FY2019) and its comfortable gearing level at 0.3 times, as a result of the sizeable equity investment received from Adani Defence during the last three fiscals.

The ratings, however, continue to be constrained by the working capital-intensive nature of the business. ADTPL's working capital intensity, as measured by Net Working Capital/Operating Income (NWC/OI), stood high at 81.8% as on March 31, 2021 due to high inventory/work-in-progress levels mainly owing to the ongoing orders, coupled with relatively long collection cycle. The customer concentration remains high, though established relationship provides comfort. ICRA notes the seasonality in its revenue, which are highly concentrated in the third and fourth quarters. The ratings factor in the nature of projects executed by the company, which generally involve long gestation cycle of investments towards the designing and development of products. The ratings also note the relatively high likelihood of project deferrals due to procedural delays (leading to revenue deferment), as inherent in the Defence industry.

The Stable outlook reflects ICRA's opinion that ADTPL will continue to maintain its business positioning in the Defence industry and would continue to demonstrate stable growth in revenues, profits and cash accruals and maintain comfortable coverage metrics.

Key rating drivers and their description

Credit strengths

Proven operational track record in Defence industry; established relationships with reputed Defence organisations – ADTPL has an established track record of more than 15 years in the designing, development and manufacturing of electronic, electrical, optical and telecommunication equipment for strategic Defence programmes for the Indian Armed Services and international Defence majors. It shares established relationships with reputed Defence organisations in the domestic and overseas market. Under its Defence segment, major domestic customers include the Ministry of Defence (MoD), various Defence laboratories under Defence Research and Development Organisation (DRDO), Defence PSUs such as Bharat Electronics Limited (BEL) and Hindustan Aeronautics Limited (HAL) and units operated by the Indian Space Research Organisation (ISRO), etc.

ADTPL benefits from its association with foreign partners such as Elbit Security Systems Limited and Israel Aerospace Industries in Israel, European Aeronautic Defence and Space Co. in Germany, Elettronica S.p.A in Italy, MBDA Missile Systems in France, Rosoboronexport in Russia, etc, by gaining access to foreign markets, orders through advanced technical knowhow.

Diversified product profile across segments – ADTPL offers a wide range of products and services across its segments. Over the years, it has developed expertise in research and development (R&D), manufacturing, quality assurance, evaluation and system integration for various Defence products such as battle tanks, fighter aircraft, helicopters, unmanned aerial vehicles, avionics equipment including missile launch detection systems (MILDS), optronics, LRF-based products, laser target designators (LTD), thermal imagers and fire control systems (TIFCS), navigation, tactical communication, software defined radios (SDR), image conversion, data and image fusion, radar, radio frequency (RF) seekers, C3I systems, electronic warfare, simulators, microwave components and RF units for the Indian and international markets.

Sizeable unexecuted order book position provides healthy medium-term revenue visibility – ADTPL's unexecuted order book position remains high with confirmed orders of ~Rs. 4,242 crore as on March 31, 2021 providing healthy medium-term revenue visibility. A few orders such as the simulator centres for Mi-17 Helicopters and MiG 29 Fighter Aircrafts are spread over a period of 20 years. Besides, as the simulator centres are service-oriented contracts and are margin-accretive in nature, it is also likely to aid in improved profitability. Notwithstanding the healthy order book position, the timely execution of such orders would remain critical for achieving revenue growth and profitability on the expected lines.

Strategic benefits of being associated with Adani Defence – Adani Defence acquired 26% stake in ADTPL in FY2019 for a total acquisition value of Rs. 400.0 crore. ADTPL is now a subsidiary of Adani Defence by virtue of control over the composition of the board of directors. The company benefits from being associated with Adani Defence in the form of its improved ability to bid for higher-value orders and improved financial flexibility by being a part of the Adani Group.

Credit challenges

Stretch in working capital intensity in recent past due to increased inventory and other current assets – ADTPL's working capital cycle has been impacted by the elongated receivables cycle and high work-in-progress, resulting in high working capital borrowings. Besides, the project billing and delivery schedule for the Defence business is usually concentrated towards the third and fourth quarters, which results in skewed working capital requirements and high debtors towards the end of the year. Its working capital intensity stood high at 81.8% as on March 31, 2021 (compared to 104.2% as on March 31, 2020). In general, the company maintains high raw material inventory/WIP for ongoing projects due to high lead times for several critical components.

High customer concentration though established relationship provides comfort – ADTPL's customer concentration remains high with the top five clients accounting for nearly 80% of its revenues in FY2021 and FY2020. Nonetheless, long-term association with its key customers ensures repeat orders and provides stability to its business.

Long gestation periods in Defence segment – The R&D cycle of Defence products and solutions is long and could stretch for several years. Moreover, ADTPL offers products and solutions that form a part of the larger delivery system manufactured by other system integrators with the end customer being the MoD. This elongates the cycle further. Besides, the capital-intensive

nature of the sector mandates regular investments in plant and machinery as well as R&D expenditure. The company's operations are also exposed to the inherent regulatory risks in the Defence segment.

Seasonality in order execution cycle and project-related risks – The order execution cycle faces seasonality, leading to uneven cash flows throughout the year and exposure to cost as well as time overruns, especially for the high-valued projects with relatively long-term execution cycles. The profitability on such contracts is, therefore, susceptible to the project-related risks as seen in the past.

Liquidity position: Adequate

ADTPL's liquidity position is **adequate** characterised by moderate availability of buffer in its working capital facilities and moderate cash balance of Rs. 27.6 crore (on consolidated basis) as on March 31, 2021. The average utilisation of its fund-based working capital facility stood at 64% during April 2020 to March 2021. ICRA also takes note of ADTPL's high financial flexibility by being a part of the Adani Group.

Rating sensitivities

Positive factors – ICRA could upgrade ADTPL's ratings if it demonstrates a sustained improvement in its scale of operations and profitability by timely execution of its order book, leading to improved return indicators and debt protection metrics, while improving its working capital intensity and liquidity.

Negative factors – Negative pressure on ADTPL's ratings could arise if its profitability and cash flows deteriorate from the current levels. ICRA could downgrade the ratings, if it undertakes higher-than-anticipated debt-funded capital expenditure and/or any further steep deterioration in its working capital intensity, thereby impacting its cash flows and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent- Adani Enterprises Limited
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated performance of Alpha Design Technologies Private Limited, its subsidiaries which are enlisted in Annexure-2

About the company

ADTPL was founded in 2003 by Retired Col. H. S. Shankar (ex-Director of R&D at BEL) and Vasaka Promoters and Developers Private Limited, holding a stake of 56.77% (earlier 85.8%). Vasaka is a special purpose vehicle (SPV) that was founded by Mr. A. R. Murugappa (promoter of Murugappa Group), Mr. M. Yugandhar (promoter of Karvy Group) and Mr. Amar Singh Bakshi. In December 2018, Adani Defence Systems and Technologies Limited, a wholly-owned subsidiary of Adani Enterprises Limited, acquired a 26% stake in ADTPL. While Col. Shankar spearheads the operations and management of the company, the seed capital for the venture was mainly provided by Vasaka. It designs and manufactures electronic, electrical, optical and telecommunication devices for the Defence sector. Col. Shankar has held senior positions in the Army and has spearheaded several indigenous development projects at BEL as a Director (R&D).

In FY2021, the company reported a net profit of Rs. 9.7 crore on an OI of Rs. 452.1 crore compared to a net profit of Rs. 1.0 crore on an OI of Rs. 405.0 crore in FY2020.

Key financial indicators (audited)

ADTPL Consolidated	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	286.7	405.0	452.1
PAT (Rs. crore)	4.9	1.0	9.7
OPBDIT/OI (%)	13.9%	10.7%	14.2%
PAT/OI (%)	1.7%	0.3%	2.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.9	1.2
Total Debt/OPBDIT (times)	1.6	4.5	3.0
Interest Coverage (times)	2.6	2.7	3.2

* Provisional financials; 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	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				June 18, 2021	Nov 19, 2020		Feb 18, 2020	Oct 17, 2019	Dec 31, 2018	Sep 11, 2018
1 Cash Credit	Long-term	110.0	NA	[ICRA]BBB+ (Stable); reaffirmed and withdrawn	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Term Loan	Long-term	52.3	NA	[ICRA]BBB+ (Stable); reaffirmed and withdrawn	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Bank Guarantee	Short-term	102.0	NA	[ICRA]A2; reaffirmed and withdrawn	[ICRA]A2		[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4 Interchangeable	Short-term	(20.0)	-	[ICRA]A2; reaffirmed and withdrawn	[ICRA]A2		[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term – Fund Based/TL	Simple
Short Term – Non-fund Based	Very Simple
Short Term – Interchangeable	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	110.0	[ICRA]BBB+ (Stable); reaffirmed and withdrawn
NA	Term Loan	March 2018	NA	March 2024	52.3	[ICRA]BBB+ (Stable); reaffirmed and withdrawn
NA	Bank Guarantee	NA	NA	NA	102.0	[ICRA]A2; reaffirmed and withdrawn
NA	Interchangeable	NA	NA	NA	(20.0)	[ICRA]A2; reaffirmed and withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Alpha Tocol Engineering Services Private Limited	100%	Full Consolidation
Reline Thermal Imaging and Software Private Limited	100%	Full Consolidation
Microwave and Optronics Systems Private Limited	100%	Full Consolidation
Alpha Electronica Defence Systems Private Limited	80%	Full Consolidation
Alpha Elsec Defence and Aerospace Private Limited	51%	Full Consolidation
Kortas Industries (till 13-08-2020)	85%	Full Consolidation
Alpha Kortas Space System Pvt. Ltd.	100%	Full Consolidation
Kortas Industries Private Limited	85%	Full Consolidation
Flaire Unmanned Systems Pvt Ltd	100%	Full Consolidation
Adani Elbit Advanced Systems India Limited	54%	Full Consolidation

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