

Press Release

Pinaka Aerospace Solutions Private Limited

October 12, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE BBB**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 25.00 crore bank facilities of Pinaka Aerospace Solutions Private Limited. The outlook is '**Stable**'.

Bengaluru based Pinaka Aerospace Solutions Pvt. Ltd (PAS) was established in 2007, is an Integrated Systems and Solutions Provider in the field of Avionics and Aerospace technologies such as Electronic Warfare, Radar, Communication Systems, Simulators and Automatic Test Equipment. Pinaka Aerospace supplies majorly to government customer base which includes Indian Armed Forces (Army, Airforce, Navy), DRDO laboratories, PSUs like BEL, HAL to name a few. Pinaka Aerospace is an AS 9100:2016, ISO 9001 - 2015 & Cemilac certified provides Turnkey solutions through all stages of Project realization. It provides product support to Automatic Test Equipment, Ground Support Equipment, Indigenization & Upgradation of obsolescence, Repair of Air borne & Ground Avionics, Independent Verification & validation of Airborne Hardware & Software.

Key Rating Drivers

Strengths

- Experienced Management and Reputed Clientele base:**

Management of Pinaka Aerospace consists of former defence officers and Scientist of DRDO and DLRL. Mrs. Radhika Pasumarthi, Managing Director worked as senior scientist for DRDO labs in the field of design and development of airborne and ground based Electronic Warfare and Communication Intelligence Systems and Mr. Subodh Sharma, CEO has more than 26 years of experience in Indian Air Force (IAF) in handling fighters, transport aircrafts and helicopters. Over the time Pinaka Aerospace has established healthy relationship with reputed clientele such Indian Armed Forces, DRDO laboratories, Hindustan Aeronautical Ltd and Bharat Electronics Ltd among others.

- Healthy financial risk profile with improvement in margins:**

The financial risk profile is healthy marked tangible networth of Rs. 15.10 crore as on 31st March, 18 (Prov.) as against Rs. 8.03 crore as on 31st March, 17. The company has conservative leverage policy with adjusted gearing of 0.17 times as on 31st March, 18 (P) as against 0.19 times as on 31st March, 17. Total outside Liabilities to Tangible net worth (TOL/TNW) was also healthy at 0.57 times as on 31st March, 18 (Prov.) as against 0.43 times as on 31st March, 17. The coverage indicators stood healthy which is marked by interest coverage ratio and debt service coverage which stood at 19.24 and 8.49 times respectively in FY2018 (Prov.) as against 5.35 and 3.79 respectively in the previous year.

Acuité believes that Pinaka Aerospace adequate return on capital employed (ROCE: 32.78 percent in FY2018) coupled with no major debt funded capital expenditure will continue to support the healthy financial risk profile. The EBITDA margin have improved to 23.07 per cent in FY18 (Prov.) as against 14.86 per cent in FY17 on account repeat order of tested design which has reduced non-recurring expenditure to develop new prototypes. The PAT margins has improved to 14.44 per cent in FY18 (Prov.) as against 7.15 per cent in FY17.

- **Entry barrier and healthy order book:**

Pinaka Aerospace operates in niche and high entry barrier Avionics and Aerospace industry and the company has established presence and capabilities provides strength to overall business risk profile. Pinaka Aerospace has healthy order book position with Rs. 69.77 crore as on 1st October, 18. With high entry barrier accompanied by long term nature of contracts of the order book provides revenue visibility for medium term.

Weaknesses

- **Modest Scale of Operations and high dependence of government spending:**

Scale of operations of Pinaka Aerospace is modest with operating income of Rs. 21.48 crore in FY18 (Prov.) as against Rs. 20.01 crore in FY17. Also the company's operations are highly susceptible upon government spending on these sectors.

- **Working capital intensive operations:**

The operations of the company are working capital intensive as the gross current assets (GCA) stood at 221 days during FY18 (Prov.) as against 131 days during FY17. The stretched GCA days are on account of higher debtor days of 204 days during FY18 (Prov.) as against 81 days during FY17. However, the average cash credit limit utilisation is comfortable at ~11 percent during the last six months ended as on September, 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Pinaka Aerospace Solutions Pvt Ltd to arrive at this rating.

Outlook: Stable

Acuité believes Pinaka Aerospace will maintain 'Stable' outlook over the medium term on account of experienced management team and comfortable financial risk profile. The outlook may be revised to 'Positive' if there is significant and sustained improvement in its scale of operations while maintaining operating profitability and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or decline in operating profitability resulting in deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.48	20.01	10.10
EBITDA	Rs. Cr.	4.95	2.97	1.52
PAT	Rs. Cr.	3.10	1.43	0.71
EBITDA Margin (%)		23.07	14.86	15.08
PAT Margin (%)		14.44	7.15	7.07
ROCE (%)		32.78	30.08	21.84
Total Debt/Tangible Net Worth	Times	0.20	0.24	0.24
PBDIT/Interest	Times	19.24	5.35	4.29
Total Debt/PBDIT	Times	0.59	0.64	1.02
Gross Current Assets (Days)	Days	221	131	207

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A3+
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A3+

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About Acuité Ratings & Research:

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