

Press Release

Pinaka Aerospace Solutions Private Limited

November 19, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2 (upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+** (read as ACUITE triple B plus) from '**ACUITE BBB**'(read as ACUITE triple B) and short-term rating to '**ACUITE A2**' (read as ACUITE A two) from '**ACUITE A3+**' (read as ACUITE A three plus) to Rs.25.00 crore bank facilities of Pinaka Aerospace Solutions Private Limited (PASPL). The outlook is '**Stable**'.

The upward rating revision reflects significant improvement in its operating performance aided by healthy order book position and speedy execution of the same, while maintaining the financial risk profile. PASPL's business performance has sequentially improved over the four-year period through 2019-20, the company is likely to record a threefold increase in its revenues to Rs.60 crores over Rs.20 crores in FY2016-17, while maintaining healthy operating margins at around 20 per cent during FY2020. The improving market position of PASPL is also reflected through growth in order book and improving clientele base. The upgrade is also driven by the conservative financial policy demonstrated by the company over the last three years, as is also reflected by peak gearing levels of 0.24 times as on March 31, 2017, which has sequentially improved to around 0.08 times as on March 31, 2019. Acuité expects the business and financial risk profile to remain healthy over the medium on the back of its healthy order book and established track record of providing turnkey solutions to defense establishments.

Established in 2007 Pinaka Aerospace Solutions Pvt. Ltd, based at Bangalore, 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. It's majorly supplies to Indian Armed Forces (Army, Airforce, Navy), Defence Research and Development Organisation (DRDO) laboratories, PSUs like Bharat Electronics Limited (BEL), Hindustan Aeronautics Limited (HAL). PASPL 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.

Analytical Approach

Acuité has considered standalone business and financial risk profile of PASPL to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced management and reputed clientele base**

PASPL is promoted by Mrs. Radhika Pasumarthi (Managing Director) and Mr. Subodh Sharma (CEO). The management of Pinaka Aerospace consists of former defence officers and Scientist of DRDO and Defence Electronics & Research Laboratory (DLRL). Mrs. Radhika Pasumarthi 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, has more than 26 years of experience in Indian Air Force (IAF) in handling fighters, transport aircrafts and helicopters. The senior management team is ably supported by a strong line of mid-level managers. PASPL over the time has been able to establish healthy relationship with reputed clientele such Indian Armed Forces, Hindustan Aeronautical Ltd, Bharat

Electronics Ltd and R&D organisations like DRDO and ADA. The extensive experience of the promoters is also reflected through the healthy revenue growth rate. The revenue of the company has grown at a CAGR of ~47 per cent over the last four years through FY2019-20.

Acuité believes that PASPL will continue to benefit over the medium term on the back of the extensive experience of the promoters and healthy relationship with customers.

- **High Entry barriers and Healthy order book position**

PASPL operates in a niche segment of a high entry barrier Avionics and Aerospace industry. PASPL is 'Centre for Military Airworthiness and Certification (CEMIAC)' certified, whereby it is an approved design house for design and development of software and equipment for military aircraft application. This certification is based on technical experience and past record of such authorized design houses. PASPL has established presence and capabilities which provides strength to overall business risk profile.

PASPL has a healthy order book position of Rs.66.16 crore as on 31st October 2019 from organizations like BEL, Aeronautical Development Agency (ADA), Tata Projects Ltd, HAL among others. These orders are expected to be executed within 1-2 year period.

With high entry barrier coupled with long term nature of contracts of the order book provides adequate revenue visibility over medium term.

- **Healthy financial risk profile**

PASPL's financial risk profile is healthy, marked by moderate networth, low gearing and healthy debt protection metrics. The tangible networth stood moderate at Rs19.79 crore as on March 31, 2019. The networth has grown gradually from Rs. 6.60 crore to Rs19.79 crore from FY2016-FY2019. The growth in networth is fueled by equity infusion during FY2018 coupled with substantial improvement in operating margin of 15-21% over the last four year.

The company has followed conservative financial policy, reflected through its peak gearing and Total Outside Liabilities to Tangible networth (TOL/TNW) level of 0.24 times and 0.43 times as on March 31, 2017. The leverage level continues to remain low with gearing of 0.08 times and TOL/TNW of 0.34 times as on March 31, 2019.

Acuité expects the debt levels to remain low on the back of limited capex requirement and conservative financial policy adopted by the company. The gearing is expected to be in the around 0.10 times over the medium term.

PASPL have healthy profitability margin in the range of 15-23 percent over the last three year ended FY2019. The healthy profitably levels vis-à-vis lower debt level has resulted in healthy debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 12.37 and 6.93 times respectively for FY2019.

Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves, lower capex requirement and healthy profitability margins.

Weaknesses

- **Working capital intensive operations**

PASPL's operations are working capital intensive in nature as reflected by its gross current assets (GCA) days of 244 days as on March 31, 2019. The company books ~75-80 per cent of its revenue in second half of the year, which is also reflected through high GCA days level as on March 31, 2019. Further, the contract are long term in nature, which results in high inventory days of 92 as on March 31, 2019. PASPL's majorly deals with government organizations which leads to high collection period of 101 days as on March 31, 2019. However, the average cash credit limit utilisation is comfortable at ~23 percent during the last six months ended as on August 2019 while the peak utilization was high at around 47 per cent during the same period as the company mainly rely on internal accruals to fund its incremental working capital requirement.

There has been no instances of bad debts.

Acuité expects the operations of the company to remain moderately working capital intensive over the medium term on account of the high inventory levels maintained by the company to execute long term contracts and high collections days on account extended credit period to the customers.

Rating Sensitivities

- Sustained improvement in profitability margins while maintaining financial risk profile and liquidity position.
- Stretch in the working capital cycle leading to GCA days beyond 250 days.

Material Covenants

None

Liquidity Position: Adequate

PASPL has adequate liquidity. The bank limits have been on an average 23 per cent utilized for fund based and 49% utilised for non-fund based for the last six months ended August 2019. Cash accrual is expected at Rs.8.00-9.00 crore per annum in fiscals 2020 and 2021, against nil long-term debt obligations, thus provide higher cushion for working capital requirement. Current ratio stood comfortable at 3.89 times as on March 31, 2019. The company maintained investment of Rs.3.83 crore as on March 31, 2019. With no major debt based capex plans going forward, liquidity likely to remain adequate.

Outlook: Stable

Acuité believes PAS will maintain 'Stable' outlook over the medium term on account of experienced management team and healthy 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	32.25	21.48	20.01
EBITDA	Rs. Cr.	6.98	4.95	2.97
PAT	Rs. Cr.	4.69	3.10	1.43
EBITDA Margin	(%)	21.65	23.07	14.86
PAT Margin	(%)	14.55	14.44	7.15
ROCE	(%)	36.05	32.78	30.08
Total Debt/Tangible Net Worth	Times	0.08	0.20	0.24
PBDIT/Interest	Times	12.37	19.24	5.35
Total Debt/PBDIT	Times	0.21	0.59	0.64
Gross Current Assets (Days)	Days	244	221	131

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Oct-2018	Cash credit	Long Term	2.50	ACUITE BBB/Stable (Assigned)
	Proposed Cash credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Bank guarantee/Letter of	Short Term	6.50	ACUITE A3+ (Assigned)

	Guarantee			
	Proposed Bank Guarantee	Short Term	11.00	ACUITE A3+ (Assigned)

***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 (Upgraded from Acuite BBB/Stable)
Proposed Cash credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+/Stable (Upgraded from Acuite BBB/Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A2 (Upgraded from Acuite A3+)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Upgraded from Acuite A3+)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294053 bhanupriya.khandelwal@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.