

Press Release

Pinaka Aerospace Solutions Private Limited

February 16, 2021



Rating reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

Established in 2007 and based out of Bangalore, Pinaka Aerospace Solutions Pvt. Ltd (PAS) 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. It is promoted by Mrs. Radhika Pasumarthi (Managing Director) and Mr. Subodh Sharma (CEO). It majorly supplies to Indian Armed Forces (Army, Air force, Navy), DRDO laboratories, PSUs like BEL, HAL. PAS is an AS 9100:2016, ISO 9001 - 2015 & Cemilac certified provider of Turnkey solutions through all stages of Project realization viz. Requirements definition, Design & Development, Testing, System Integration, Certification & Qualification and Product Support Comprising of the Following Items, ATE, STTE, Simulators, GSE, Indigenization & Upgradation of obsolescence, Repair of Air borne & Ground Avionics, Independent Verification & validation of Airborne Hardware & Software etc.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PAS to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele base**

PAS is promoted by Mrs. Radhika Pasumarthi (Managing Director) and Mr. Subodh Sharma (CEO). The management of Pinaka Aerospace consists of former defense officers and Scientist of DRDO and Defense 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. PAS 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 organizations like DRDO and ADA. Acuité believes that, the vast experience of the promoters will help the company in getting new orders on long term.

- **Stable operating performance**

The extensive experience of the promoters is also reflected through the healthy revenue growth rate. The revenue of the company is has grown at a CAGR of ~58 per cent over the last 3 years through FY20. Further to this, the company has maintained steady operating margins in the range of 19.96-23.07 per cent over the last three years. The company's business is contractual in nature and hence the margins fluctuate marginally on the basis of delay in placement of orders from the estimated rates at the time of budgeting the costs.

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

PAS operates in a niche segment of a high entry barrier Avionics and Aerospace industry. The company 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. PAS has established presence and capabilities which provides strength to overall business risk profile. Further to this has a healthy order book position of Rs. 50.94 Cr as on 31 December 2020 from organizations like BEL, Aeronautical Development Agency (ADA), HAL among others. These orders are expected to be executed within the 2-year period. Acuité believes, with high entry barrier coupled with long term nature of contracts of the order book provides adequate revenue visibility over the medium term.

- **Healthy financial risk profile**

PAS demonstrated a healthy financial risk profile marked by moderate net worth, low gearing and healthy debt protection metrics. The net worth improved from Rs 19.68 Cr as on FYE19 to Rs 27.08 Cr as on FYE20 as a result of reinvestment of the profits in the business. The company follows an asset lite business model with net fixed assets totaling to Rs 0.93 Cr at FYE20 keeping the debt low.

The company follows a conservative financial policy with gearing in the range of 0.08x to 0.43x over the past 3 years ending FY20 (Adjusted gearing 0.06x to 0.34x over the same period.) In FY20 the company drew down on working capital facilities and obtained unsecured loans from Financial Institutions to fund the stretch in working capital. The coverage indicators were comfortable with DSCR improving from 6.93x in FY19 to 9.11x in FY20, while the Interest coverage moved from 12.37x to 11.65x. 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**

The operations of the company are working capital intensive as observed from the gross current assets (GCA) at 288 days in FY20 as against 244 days in FY19. The stretched GCA days are on account of high inventory days, an increase in advances paid to suppliers for various projects and higher trade receivables. High inventory is on account of multiple variants of products being custom manufactured by the company. Further to this, the increase in trade receivables were as a result of delayed commissioning of work completed till third week of March 2020 which were unpaid due to lockdown. However, the average cash credit limit utilization is comfortable at ~41 percent during the last ten months ended as of January, 2021. 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

- Higher-than-expected revenues and profitability margins
- Improvement in working capital cycle.

Liquidity Position: Adequate

The operations of the company are working capital intensive as evident from high gross current asset days of 288 for FY20 as against 244 days in the previous year. The stretched GCA days are on account of high inventory days, an increase in advances paid to suppliers for various projects and higher trade receivables. High inventory is on account of multiple variants of products being custom manufactured by the company. Further to this, the increase in trade receivables were as a result of delayed commissioning of work completed till third week of March 2020 which were unpaid due to lockdown. However, the liquidity position is healthy with average cash credit limit utilization stood at ~ 41 percent during the last ten months ended January 2021. Further, the company has maintained collateral deposit of Rs.3.72 Cr as of FYE20 (excluding the BG margin of Rs 2.50Cr). The company does not have major any long term debt obligations while the company had availed COVID Loan to the tune of Rs 0.27 Cr out of which the current outstanding is Rs 0.24 Cr.

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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	53.55	32.25
PAT	Rs. Cr.	7.34	4.69
PAT Margin	(%)	13.71	14.55
Total Debt/Tangible Net Worth	Times	0.43	0.08
PBDIT/Interest	Times	11.65	12.37

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Nov-2019	Cash credit	Long Term	2.50	ACUITE BBB+/Stable (Upgraded)
	Proposed Cash credit	Long Term	5.00	ACUITE BBB+/Stable (Upgraded)
	Bank guarantee	Short Term	12.50	ACUITE A2 (Upgraded)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A2 (Upgraded)
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	Short Term	6.50	ACUITE A3+ (Assigned)
	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 (Reaffirmed)
WCDL	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB+/Stable (Reaffirmed)
Proposed Cash credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB+/Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A2 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Hariprasad J Senior Analyst - Rating Operations Tel: 022-4929 4046 Hariprasad.j@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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