

## Press Release

Pinaka Aerospace Solutions Private Limited

May 16, 2022



### Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.00	-	ACUITE A2   Reaffirmed
Bank Loan Ratings	7.00	ACUITE BBB+   Stable   Reaffirmed	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	25.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite 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**'.

#### Rationale for rating reaffirmation

The rating reaffirmation of PAS takes into account company's experienced management, reputed clientele, stable operating performance, healthy order book position and healthy financial risk profile. The rating is however constrained by the company's working capital intensive operations. Ability of the company to maintain its stable operating performance while effectively managing its working capital cycle will continue to remain a key rating sensitivity.

#### About the Company

Pinaka Aerospace Solutions Pvt. Ltd (PAS), established in the year 2007 and based out of Bangalore, 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), Defence Research and Development Organisation (DRDO) laboratories, PSUs like Bharat Electronics Ltd (BEL), Hindustan Aeronautical Ltd (HAL) amongst others.

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 team 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. PAS over the time has been able to establish healthy relationship with reputed clientele such Indian Armed Forces, HAL, BEL and R&D organizations like DRDO and Aeronautical Development Agency (ADA).

Acuité believes that the vast experience of the promoters and its reputed clientele base will help the company in getting new orders over the long term.

#### Stable operating performance

PAS reported revenues of Rs.47 Cr. for FY2022 (Provisional) as against Rs.17 Cr in FY2021 and Rs.54 Cr in FY2020. The revenue of the company declined in FY2021 primarily on account of disruptions caused to order execution on account of Covid 19 induced lockdowns. Operating margin of the company stood stable in the range of 15-20 percent. It stood at 15 percent for FY2022 (Provisional) as against 18 percent for FY2021 and 20 percent for FY2020. 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. Company further achieved an increase in net profit of Rs.6 Cr in FY2022 (Provisional) as against Rs.1 Cr in FY2021 and Rs.7 Cr in FY2020.

Further, 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, company has a healthy order book position of Rs.117 Cr as on 31st March 2022 from organizations like BEL, HAL, Centre for Airborne Systems (CABS), 7 Base Repair Depot (7BRD) amongst others. These orders are expected to be executed over the next 2-3 years. Company is further expecting to receive new orders worth Rs.50 Cr in Q1 FY2023 from its clients like Tata Projects, DRDO, Indian Air Force amongst others.

Acuité expects the PAS's to maintain a stable operating performance on account of its presence in a high entry barriers segment and healthy order book. 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

Financial risk profile of PAS is healthy marked by moderate networth, low gearing and healthy debt protection metrics. The networth of the company has sequentially improved to Rs.28 Cr as on 31 March, 2021 as against Rs.27 Cr as on 31 March, 2020 on account of moderate accretion to reserves. The company has followed a conservative financial policy in the past, the same is also reflected through its gearing levels. The gearing (debt-equity) improved to 0.17 times as on 31 March, 2021 as against 0.43 times as on 31 March, 2020. The gearing of the company is expected to remain low over the medium term on account of absence of any

debt funded capex plans in the future and modest incremental working capital requirements, which is likely to be funded by the cash accruals of the company. The total debt of Rs.5 Cr as on 31 March, 2021 consists of long term bank borrowings of Rs.0.13 Cr, unsecured loans from directors of Rs.0.46 Cr, short term working capital limit of Rs.4 Cr and short term covid loan of Rs.0.15 Cr. The interest coverage ratio stood lower at 2.16 times for FY2021 as against 11.65 times for FY2020. The DSCR stood lower at 0.37 times for FY2021 as compared to 9.11 times for FY2020. The Net Cash Accruals to Total debt stood at 0.28 times for FY2021 as against 0.67 times for FY2020. The Total outside liabilities to Tangible net worth has improved and stood at 0.41 times for FY2021 as against 0.83 times for FY2020.

For FY2022 (Provisional), it is estimated that gearing level of the company will be ~0.28 times, interest coverage ratio will be ~8.79 times, DSCR will be ~5.06 times, NCA/TD will be ~0.50 times and TOL/TNW will be ~0.93 times.

Acuité believes that the financial risk profile of PAS will remain healthy in near to medium term due to its stable operating performance, low debt levels vis-à-vis healthy tangible net worth and healthy debt protection metrics.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The operations of PAS are highly working capital intensive marked by Gross Current Assets (GCA) of 694 days for FY2021 as against 288 days for FY2020. This is primarily on account of high inventory days which stood at 410 days in FY2021 as against 82 days in FY2020. High inventory days is on account of major impact faced by the company due to covid induced lockdown restrictions as the various research centres and laboratories of their clients remained closed and were unable to execute their work orders of installation and testing of various hardware and software equipments. Due to which there has been an impact on the debtors and creditors cycle which got stretched. Debtors stood at 181 days in FY2021 as against 135 days in FY2020 whereas the creditors stood at 57 days in FY2021 as against 36 days in FY2020.

However, there has been an improvement in the inventory cycle of the company in FY2022 (Provisional) which stood at 170 days since they were able to execute their pending work orders post easing of lockdown restrictions. The business of the company is however cyclic in nature with most of the project completion and billing happening in the month of March and due to which debtors generally remain high. Therefore, debtors and creditors cycle has still remained stretched at ~218 days and ~208 days for FY2022 (Provisional).

Acuité believes that the operations of PAS 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 of extended credit period to the customers.

### **Rating Sensitivities**

- Ability to maintain stable operating performance
- Ability to improve working capital cycle

### **Material covenants**

None

### **Liquidity Position - Adequate**

PAS has healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.5 Cr – Rs.1 Cr during FY2019 to FY2021 against repayment obligation of Rs.0.01 Cr to Rs.0.24 Cr during the same period. Going forward the NCA are expected in the range of Rs.5 Cr – Rs.10 Cr for period FY2022-FY2024 against repayment obligation of Rs.1 Cr to Rs.0.16 Cr for the same period. The operations of the company are moderately working capital intensive marked by its improved gross current asset (GCA) days of 433 days for FY2022 (Provisional) as against 694 days for FY2021 on

account of improvement in inventory cycle during the same period which has reduced the dependency of the company on bank borrowing for its working capital requirement. The average bank limit utilization for 6 months' period ended Feb 2022 stood moderate at ~54 percent. Current ratio stands at 3.45 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.1 crore in FY2021.

### Outlook: Stable

Acuité believes PAS will maintain 'Stable' outlook over the medium term on account of its experienced management, reputed clientele and healthy order book position. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	17.27	53.55
PAT	Rs. Cr.	1.03	7.34
PAT Margin	(%)	5.96	13.71
Total Debt/Tangible Net Worth	Times	0.17	0.43
PBDIT/Interest	Times	2.16	11.65

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

Not applicable

### Any other information

None

### Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Feb 2021	Proposed Bank Guarantee	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	12.50	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	2.50	ACUITE BBB+   Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	2.50	ACUITE BBB+   Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.50	ACUITE BBB+   Stable (Reaffirmed)
19 Nov	Bank Guarantee	Short Term	12.50	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)

2019	Proposed Bank Guarantee	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	2.50	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A2   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB+   Stable   Reaffirmed

\*WCDL Limit of Rs.2.50 Cr does not exist now.

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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