

Press Release

Avantel Limited

December 07, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.40	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	15.00	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	57.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs.57.40 Cr bank facilities of Avantel Ltd (AL). The Outlook is '**Stable**'.

Rationale for the rating

The ratings assigned considers AL's established market position in Satellite Communications (SATCOMs), radar system and electronic equipment industry, extensive experience of promoters and strong research and development. These rating strengths are partially offset by the high working capital intensity in operations and the moderate scale of the business.

About the Company

Avantel was set up in 1990 in Vishakhapatnam as a private limited company by Dr A Vidyasagar along with his family members and was reconstituted as a public limited company in 1994. The company specialises in RF/microwave subsystems, digital radios, and satellite communication systems, and offers related software solutions and services. It supplies mainly to defence establishments and allied departments in the public and private sectors. It is listed on the Bombay Stock Exchange. The company has its registered headquarters, manufacturing facility and R&D facility at Vishakhapatnam.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Avantel Ltd to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations in SATCOM and electronics equipment business

Avantel was incorporated in 1992 by Mr. Dr. Abburi Vidyasagar. The management has three decades of experience in building wireless & Satellite Communication systems, RF systems design, Embedded systems & Digital signal processing, Network management & software development and Engineering & IT services. The company provides customized solutions through process oriented design, develop and manufactures RF subsystems, RADAR subsystems, Software depend radios and satellite communication systems. Established track record of three decades in electronic and telecom equipment business has enabled AL to offer a unique combination of embedded systems and related software used in defense and telecom sectors.

Established market position in telecom and electronic equipment industry

Avantel Ltd(AL) has been operating in niche defense supplies and provides customized wireless solution and satellite communications (SATCOM) solution and products. The company developed SATCOM products for data, voice & multimedia applications using INSAT 3C, GSAT-6 and GSAT-7 and company has long association with ISRO in development of terminal and SATCOM applications. AL is also involved in development and implementation of network systems for ships, submarines, surface vehicles and aircrafts.

Strong Research and Development

The company drives its core business strength from its in house R&D capabilities. Company's research and development is recognised by the department of scientific and industrial research(DISR), ministry of science and technology, GOI. The Company could offer indigenous, customized strategic solutions to Indian defence services including Indian Navy, Indian Air force, Indian Coast Guard, ISRO and BARC. Company spends around 8 to 9 percent of its turnover on research and development expenditure.

Reputed clientele of strategic importance and positive industry outlook

The company mainly operates in Aerospace & Defence sector and holds Defence Industrial Licenses issued by government and its customers mainly come from the strategic sector such as space, defence, transport and telecommunications. The company maintains healthy and long term relationships of over two decades with a reputed clientele that includes Indian Army, Indian Railways, Indian Air force, Indian Navy, ISRO, DRDO, Goa Shipyard Limited, The Boeing Company, Larsen & Toubro Limited (L&T), etc.

Moderately healthy financial risk profile

Avantel Ltd's financial risk profile is moderate marked by healthy capital structure and coverage indicators. Company's net worth stood Rs.83.72 Cr as on March 31, 2022 as against Rs.66.24 Cr as on 31 March, 2021. Company's total debt consists of only short term working capital debt of Rs 12.87 Cr. Interest coverage ratio stood comfortable at 19.27 times as on March 31, 2022 and 15.23 times as on March 31, 2021. The Total outside liabilities to Tangible net worth stood at 0.32 times for FY2022 as against 0.31 times in FY2021. Acuite believes the financial risk profile of the company will remain moderately high on account of steady net cash accruals.

Weaknesses

Working capital intensive operations

Company's operations are working capital intensive marked by Gross current asset days (GCA days) of 239 days as on March 31, 2022. Company's inventory holding period stood at 80 days and receivable holding period stood to 126 days as on March 31, 2022 against 17 days and 61 days, respectively, a year ago. As such, conversion cycle improved to 239 days in FY22 against 302 days in FY21. AL primarily relies on non-fund based facilities for securing orders, and is judicious in utilization of its fund-based working capital facilities. The company

assesses long term liquidity requirements on a periodical basis and manages them through internal accruals and committed credit lines.

Modest scale of operations

Though the company faces limited competition as it operates in a niche segment, the low scale of operations limits its bidding capacity to some extent. Nonetheless, there is significant improvement in the topline over the years, as marked by the CAGR of over 26.5 percent for the period 2019-22. Revenue from operations improved from 51.96 Cr in FY2020 to 105.03 Cr in FY2022.

ESG Factors Relevant for Rating

None

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in the overall financial risk profile
- Stretch in working capital cycle, leading to an increase in working capital borrowing and a deterioration in financial risk profile

Material covenants

None

Liquidity: Adequate

AL's liquidity is adequate marked by comfortable cash accruals vis-a-vis its debt obligations. It reported cash accruals of Rs.23 Cr in FY2022, and its accruals are expected in the range of Rs 25 -35 Cr in FY2023-25. The current ratio of the company stands at 3.04 times with cash and bank balances at Rs.0.32 Cr as on March 31, 2022. The company's GCA days are around 239 days which makes it dependent on bank borrowing for working capital requirement. The average bank limit utilization stood at 78.39 percent during FY22.

Outlook: Stable

Acuité believes that Avantel Ltd will maintain a 'Stable' outlook in near to medium term on account of its management experience and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to negative in case of moderation in liquidity profile and its profitability margins or deterioration in debt protection indicators.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	105.03	77.70
PAT	Rs. Cr.	19.18	15.33
PAT Margin	(%)	18.26	19.73
Total Debt/Tangible Net Worth	Times	0.15	0.00
PBDIT/Interest	Times	19.27	15.23

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE A2 Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	37.00	ACUITE BBB+ Stable Assigned
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A2 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.40	ACUITE BBB+ Stable Assigned

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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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