Press Release
Avantel Limited
March 06, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	27.50	ACUITE A- | Stable | Upgraded	-
Bank Loan Ratings	29.90	-	ACUITE A2+ | Upgraded
Total Outstanding Quantum (Rs. Cr)	57.40	-	-

Rating Rationale

Acuite has upgraded its long-term rating to **'ACUITE A-' (read as ACUITE A minus)** from **'ACUITE BBB+' (read as ACUITE t riple B plus)** and short-term rating to **'ACUITE A2+' (read as ACUITE A two plus)** from **'ACUITE A2' (read as ACUITE A two)** on Rs.57.40 Cr. bank facilities of Avantel Limited. The Outlook is **'Stable'.**

Rationale for rating upgrade:
The ratings upgrade considers Avantel Limited's established market position in Satellite Communications (SATCOMs), radar system and electronic equipment industry, extensive experience of promotors and strong order book position as on January 2024.

The rating further derive benefit from the improving scale of operations, healthy financial risk profile and favourable industry prospects. Revenue of the company increased by 47 percent in FY23 to Rs.154.27 Cr. from Rs.105.03 Cr. of previous year and EBITDA margin improved significantly to 32.30 percent in FY23 as majority of the income is through SATCOMs, design and development of radio frequency subsystems which fetch better margins. The capital structure remained healthy with gearing of 0.25 times and total outside liabilities to tangible networth of 0.37 times as on March 31, 2023.

The ratings are however constrained by moderate intensive working capital operations due to higher inventory and receivable period which is inherient to the nature of business and customer concentration risk as the revenue contributed by top three customers stood at ~63 percent in FY23.

About the Company

Avantel was set up in 1990 in Hyderabad 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 Vishakapatnam

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Established t rack record of operations in SATCOM and electronics equipment business

Avantel was incorporated in 1990 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 defined 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. Avantel has been receiving repeat orders from the existing clientele on the back of its established track record and healthy relationship. Acuite believes that with the extensive industry experience of the management and healthy orders in hand, the business risk profile of Avantel Limited will improve in the medium term.

Favourable industry outlook:

The outlook for the aerospace and defence industry remains stable due to the rising commercial aircraft deliveries and high er defence spending. The defence budget had been increased to ₹5.94 lakh crore for 2023-24 as against last year's allocation of ₹5.25 lakh crore. The capital allocations pertaining to modernisation and infrastructure development of Armed Forces has been increased to ₹1.62 lakh crore from ₹1.52 lakh crore budgeted for FY23. Capital allocations are primarily aimed at expenditures that include purchasing new weapons, aircraft, warships, and other military hardware. To give push to domestic enterprises under the 'Aatmanirbhar Bharat', the share of domestic capital procurement, which was earmarked at 68% in FY23, has been enhanced to 75% of the Capital Acquisition Budget of the Defence Services for the FY23-24. The initiative provides better prospects for AL in the near term.

Significant improvement in operating performance:

Avantel Limited has shown significant growth in its operations during FY23 and same being sustained during 9MFY24, primarily supported by its extensive expertise in the SATCOM segment and timely execution of orders. The company has registered revenue of Rs.154.27Cr during FY23 posting a growth rate of 47 percent against the previous year revenue of Rs.105.03Cr in FY22. Further the company has already reported revenue of Rs.183Cr till December, 2023 and expected to close the year with revenue in the range of Rs.220-230Cr. Besides the EBITDA margin of the company has also shown improvement during FY23 to 32.30 percent which is further improved to ~36 percent as per 9MFY24. Improvement in EBITDA is on account of better price quotations for orders. Acuite believes that AL's operations will further improve on account of its improving order book and its diversification into radars and satellites manufacturing segment which has positive industry outlook.

Healthy financial risk profile:

Financial risk profile of the company is healthy marked by healthy net worth, capital structure and debt protection metrics. Company's net worth stood at Rs. 111.84 Cr as on March 31, 2023 as compared to Rs. 83.72 Cr as on March 31, 2022. Improvement in net worth is on account of infusion of capital worth Rs.12.16 Cr by the promoters coupled accretion for profits to reserves. AL's capital structure is healthy marked with healthy gearing and total outside liabilities to total net worth (TOL/TNW) of 0.25 times and 0.37 times respectively as on March 31, 2023 as against 0.15 times and 0.32 times as on March 31, 2022. The coverage indicators

were healthy with DSCR of 8.24 times as on March 31st 2023 as against 16.32 times as on March 31st 2022. Interest coverage stood at 10.28 times as on March 31st 2023 as against 19.27 times as on March 31st 2022. Debt to EBITDA is continued to remain healthy at 0.56 times during FY23 from 0.44 times during previous year.
Acuite believes that the financial risk profile of the company will remain for FY24 as well on account of healthy net worth position supported by absence of long-term debt.

Weaknesses

Moderate intensive working capital operations:
The working capital operations of the company are moderately intensive which is evident from the Gross Current Assets (GCA) of 250 days in FY23. Stretch in GCA days is mainly on account of higher inventory holding period of 154 days (in FY23). The company has to maintain minimum levels of inventory due to anticipatory orders and aggressive timelines for deliveries. Stretch in GCA days is also on account of elongated debtor days at 94 days in FY23 as majority of customers are Government entities leading to longer receivable period however all the receivables are assured and secured. The fund based working capital limits were utilized at an average of ~41percent in the past 12 months ending January 2024. Acuite believes that working capital operations of the company will remain moderately intensive over the medium term as the nature of its operations require higher inventory holding.

Client concentration risk albeit reputed client base:
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 three 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. However, during FY23, the revenue concentration from top three clients of the company in defence sector and SATCOM industry stood at 63% (i.e., ~Rs.97.Cr) of total revenue. Though the company has been able to maintain strong relationship and get repeat business from the client over the years, but the revenue is still exposed to the new tenders floated by this government agencies.

Rating Sensitivities

- Improvement in the scale of operations while maintaining profitability leading to improvement in the overall financial risk profile.
- Elongation in working capital cycle, leading to deterioration in financial risk profile and liquidity profile.

Liquidity Position: Strong

Avantel Limited' liquidity position is strong which is evident from healthy net cash accruals (NCA) against nil debt repayment obligations. The company has reported Net Cash Accruals (NCA's) of Rs.35.19Cr on March 31, 2023 against nil debt repayment obligations. The cash accruals are estimated to remain in the range of Rs.50-70Cr in the medium term against expected nil debt repayment for the same period. The unencumbered cash and bank balances stood at Rs.0.23Cr as on March 31, 2023 further stood at Rs.15Cr during 9MFY24. Adequate cash accruals and moderate working capital operations have led to low reliance on the fund based working capital limits which were utilized in the range of ~41 percent during the past 12 months ending January, 2024. Acuite believes that liquidity position of the company will remain strong in the medium term on account of sufficient NCA.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	154.27	105.03
PAT	Rs. Cr.	30.04	19.18
PAT Margin	(%)	19.47	18.26
Total Debt/Tangible Net Worth	Times	0.25	0.15
PBDIT/Interest	Times	10.28	19.27

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

Not Applicable

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
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Complexity Level Of Financial Instruments: https://www.acuite.in/view-rating-criteria-55.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Dec 2022	Bank Guarantee (BLR)	Short Term	13.00	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	37.00	ACUITE BBB+ | Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	5.40	ACUITE BBB+ | Stable (Assigned)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	27.90	ACUITE A2+ | Upgraded (from ACUITE A2)
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	27.50	ACUITE A- | Stable | Upgraded (from ACUITE BBB+)
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE A2+ | Upgraded (from ACUITE A2)

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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.