Anadrone Systems Private Limited

December 20, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	41.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	66.50	IVR A3 (IVR A Three)	Assigned	Simple
Total	**108.00 (One hundred and eight crore)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Anadrone Systems Private Limited (ASPL) derive strength from its experienced promoter and qualified management team, reputed clientele coupled with moderate order book position providing revenue visibility. Also, the ratings positively note significant improvement in the financial risk profile in FY2022 marked by its healthy capital structure and sound debt protection metrics. The ratings also consider the substantial improvement in working capital cycle in FY2022. However, these rating strengths remain constrained by ASPL's modest scale of operations with exposure to customer concentration and the need for constant upgradation of technology, tender driven nature of its business with intense competition and exposure to foreign currency fluctuation risk.

Key Rating Sensitivities

Upward Factors:

- Significant and sustained growth in the scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and debt protection metrics on a sustained basis.
- Sustenance of the capital structure.

Downward Factors:

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.
- Moderation in the capital structure with overall gearing deteriorated over 1x

- Stretch in average receivables leading to weakening of liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced and qualified promoters and management team**

  The founder promoter of the company, Mr. Anant Arun Bhalotia is an MBA by qualification and has an experience of over a decade in the manufacturing of arial target drones for the defence sector. He is also the Managing Director of the company and is actively involved in managing the day-to-day operations of the company along with the support of other Directors – Mrs. Sunita Bhalotia (mother of Ms. Anant Bhalotia) and Mrs. Shriya Bhalotia (wife of Mr. Anant Bhalotia). The directors are supported by a team of experienced and qualified professionals.

- **Reputed clientele, albeit customer concentration**

  The Ministry of Defence is ASPL's sole customer. The company bids for defence projects floated by the ministry on a fixed-contract basis. Though the company is exposed to client concentration risk, yet association with government organisation reduces counter party credit risk and ensured regular inflow of orders. However, any changes in the procurement policy of the defence forces or a significant cutback in defence spending may adversely impact the company's revenue and order book position.

- **Significant improvement in financial risk profile in FY2022 with healthy profitability**

  The operating income of the company remained erratic over the past three fiscals. However, ASPL reported a significant year-on-year growth in its total operating income Rs.25.83 crore in FY2021 to Rs.209.83 crore in FY2022 driven by substantial increase in demand for arial target drones following the government's formidable push for indigenisation with the launch of the 'Make in India' and 'Atmarnirbhar' campaign. With increase in top line, operating margin also improved from 9.25% in FY2021 to 12.90% in FY2022 on account of execution of high margin orders. Also, ASPL was able to achieve economies of scale with increase in scale of operations. Consequently, PAT margin also improved from 4.78% in FY2021 to 8.59% in FY2022. GCA improved from Rs.1.74 crore in FY2021 to Rs.19.11 crore in FY2022.

  ASPL achieved a TOI of Rs.23.08 crore during H1FY2023 as against a TOI of Rs.77.47 crore during H1FY2022. The company's ability to sustain the growth in its scale of operations without compromise in its profitability margins will remain a key rating monitorable going forward.

- **Strong financial risk profile marked by healthy capital structure and sound debt protection metrics**

  ASPL has maintained a conservative capital structure over the past three fiscals. The long-term debt equity ratio and the overall gearing ratio stood comfortable at 0.17x and 0.24x respectively as on March 31, 2022 (0.04x and 0.04x respectively as on March 31, 2022). Furthermore, total indebtedness of the company as reflected by TOL/TNW also comfortable at 1.23x as on March 31, 2022. With increase in profits, the debt coverage indicators also witnessed an improvement with ICR of 6.01x (5.07x in FY2021) and total debt to GCA of 0.56x (0.59x in FY2021) in FY2022. Infomerics expects that the financial risk profile of the company will continue to remain healthy in the near term. However, any unplanned debt funded capex may affect the debt protection metrics and capital structure.

- **Moderate order book position providing revenue visibility**

  ASPL's order book position as of October 31, 2022, stood at Rs.154.76 crore which provides revenue visibility of 0.74x of operating revenue of FY2022. ASPL bagging the orders wherein it is technically qualified shall be a key rating monitorable as it drives the revenue towards projected levels.

- **Improvement in working capital management**

  The operating cycle of the company improved in FY2022 as compared to FY2021 with decrease in collection period from 217 days in FY2021 to 13 days in FY2022 on the back of continuous efforts made by the management to realise its payment from the government organisations. Also, the government's initiatives to reduce the downtime on payments to MSMEs has resulted in speeding up of realisations for ASPL. The inventory period also reduced from 62 days in FY2021 to 5 days in FY2022. Further, with improvement in cash accruals and overall liquidity position of the company, the creditors period also reduced from 114 days in FY2021 to 36 days in FY2022. The company's ability to sustain the improvement in its operating cycle will remain a key rating monitorable going forward.

Key Rating Weakness:

- **Modest scale of operation**

  Even though ASPL reported a substantial growth in its TOI in FY2022 as compared to the previous fiscal years, yet the same continues to remain modest at Rs.209.83 crore. Further, the total operating income sharply deteriorated in the current fiscal year where in ASPL achieved a top line of Rs. Rs.23.08 crore during H1FY2023 as against Rs.77.47 crore during H1FY2022. Modest scale of operations restricts the financial flexibility of the company.

- **Need for constant upgradation of technology**

  ASPL need to upgrade/modify its products continuously as per changing customer needs which requires continuous spending on research and development.

- **Tender driven nature of business coupled with intense competition**

  ASPL operates in a highly regulated industry with MOD being its only client. Furthermore, the orders are tender-based, and revenue of the company is dependent on its ability to bid successfully for these tenders. Thus, there is tendency of revenue profile to remain fluctuating depending upon the orders bagged. Nevertheless, with promoters long standing experience and moderate orderbook in hand the company’s financial profile in near to medium term is likely to remain buoyant. However, the defence sector is intensely competitive, characterised by the presence of large players. Besides, a tender-based contract awarding system tends to keep the operating margins under check.

- **Exposure to foreign exchange fluctuation risk**

  ASPL is heavily dependent on imports for a major portion of its raw material requirements. Further, the company also imports various services for meeting the specific requirements of its customer. Hence, the profitability of the company remains exposed to risk arising out of movements in foreign currencies. ASPL has earned a forex gain of Rs.1.29 crore in FY22 as against a forex loss of Rs.0.02 crore in FY21. ASPL does not implement any prudent hedging policy. The unhedged foreign currency exposure stood at Rs.29.42 crore and Rs.2.50 crore as on March 31, 2022, and September 30, 2022, respectively.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria of assigning Rating Outlook

Liquidity Position: Adequate

The liquidity profile of the company is expected to remain adequate in the near to medium term on the back of its expected sufficient cash accruals vis-à-vis its long-term debt repayment obligations of Rs.7.69 crore in FY2023 and Rs. Nil in FY2024 and in FY2025. ASPL earned healthy gross cash accruals of Rs.19.11 crore in FY2022. Further, the overall gearing remained comfortable at 0.24x as on March 31, 2022, indicating a sufficient gearing headroom. The current ratio stood comfortable at 1.44x as on March 31, 2022. Moreover, the average working capital utilisation remained low at ~7.24% and average non-fund-based utilisation remained moderate at ~72% during the last twelve months ended October 31, 2022. Also, the company has free cash and cash equivalents to the tune of Rs.0.78 crore as on October 31, 2022, which is likely to support the liquidity position of the company in the near to medium term.

About the Company

Anadrone Systems Private Limited (ASPL) was incorporated in June 2004 as Sure Safety Solutions Pvt. Ltd in Mumbai, Maharashtra. Later rechristened as ASPL during January 2019. The company is engaged in manufacturing and servicing of arial target drones for the defence industry. ASPL has been in technical collaboration with UK based defence specialist QinetiQ Target Systems Ltd from the year 2008 and had become a trusted supplier of modernized, supersonic defence system equipment. ASPL runs its business on an order-based model.

Financials: Standalone **(Rs. crore)**

For the year ended* / As On	**31-03-2021**	**31-03-2022**
	Audited	**Audited**
Total Operating Income	25.83	209.83
EBITDA	2.39	27.07
PAT	1.25	18.25
Total Debt	1.03	10.61
Tangible Net worth	26.01	44.39
EBITDA Margin (%)	9.25	12.90
PAT Margin (%)	4.78	8.59
Overall Gearing Ratio (x)	0.04	0.24

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Vide Press Release dated May 13, 2022 Crisil has moved the ratings of the company to Issuer Non Cooperating category due to non-submission of information by the company.

Vide Press Release dated November 11, 2020 India Ratings has moved the ratings of the company to Issuer Non Cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit (including proposed limit of Rs.5.00 crore)	Long Term	11.50	IVR BBB-/Stable	-	-	-
2.	Bank Guarantee	Long Term	30.00	IVR BBB-/Stable	-	-	-
3.	Bank Guarantee (including proposed limit of Rs.45.00 crore)	Short Term	66.50	IVR A3			

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Gupta Tel: (033) 46022266 Email: hdidwania@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Cash Credit (including proposed limit of Rs.5.00 crore)	-	-	-	11.50	IVR BBB-/Stable
Bank Guarantee	-	-	-	30.00	IVR BBB-/Stable
Bank Guarantee (including proposed limit of Rs.45.00 crore)				66.50	IVR A3
Total				**108.00**	

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Anadrone-dec22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.