

**Press Release**

**Taneja Aerospace and Aviation Limited**

**September 4, 2019**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crores)</b>	<b>Rating Assigned</b>
1.	Long Term Fund Based Limits	9.70 (including proposed limit of Rs.2.80 crore)	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)
2.	Long Term Debt – Term Loan	23.11	
3.	Short Term Non- Fund Based Facilities	12.19	IVR A4 (IVR A Four)
	<b>Total</b>	<b>45.00</b>	

**Details of Facilities are in Annexure I**

**Detailed Rationale**

The rating derives strength from experienced promoter and eminent board, reputed clientele, diversified revenue profile, improving profitability margins, comfortable gearing and debt coverage indicators, presence in niche segment and strategic location of the airfield. The rating however is constrained by range bound and moderate scale of operation, moderate order book position and complex nature of business. Scale of operation and adequate cash flow generation, leverage, government regulations and policies are the key rating sensitivities.

**List of key rating drivers with detailed description**

**Key Rating Strengths**

**Experienced promoter and eminent board**

Taneja Aerospace and Aviation Limited was promoted by Mr. Salil Taneja in 1991. He is an MBA from Yale University and has over 25 years of industry experience. Mr. Muralidhar Chetteti Reddy (alumnus of IIM Ahmedabad) is the Managing Director and responsible for the day-to-day operations of the company. The company’s Board of Directors include eminent professionals with vast experience. Dr. Prahalada Ramarao (Padma Shri, 2015) is the Chairman of the Board. He is a distinguished scientist and former Director of Defence Research and Development Laboratory.

## **Reputed clientele**

The company has been in the business of manufacturing aero components, aero structures and aircraft assemblies for over 25 years. As a result of the same, the company has established relationship with reputed clientele like Air Works (India) Engg. Pvt. Ltd., Hindustan Aeronautics Limited (HAL), Vikram Sarabhai Space Centre (VSSC), Aeronautical Development Establishment, Indian Air Force (IAF) etc. In the recent years, the company has also started supplying to various international aero structure manufacturing companies such as Rafael Advanced Defence Systems Ltd. (Israel), Sogclair Aerospace GmbH (Germany) etc. Despite its reputed clientele, TAAL remains exposed to customer concentration risk since more than 50% of the orders comes from government entities.

## **Diversified revenue profile**

The company has a diversified revenue profile which major revenue is derived primarily from its two business segments i.e. aircraft parts manufacturing & maintenance and airfield divisions. The company earns revenue from airfield division by leasing out the airstrip (with night landing, hangar facilities and parking bays) to aircrafts. Since FY15, the company commenced trading of electrical goods which generates additional income.

## **Improving profitability margins**

The EBITDA margin of the company has improved significantly from 23.06% in FY18 to 42.41% in FY19 on account of decrease in raw material costs and control over other expenses in FY19. Similarly, PAT margin has also improved significantly from 0.47% in FY18 to 15.47% in FY19. The operation and profitability margins of the company are steadily improving though the company had booked losses in the past (FY14-FY16).

## **Comfortable gearing and debt coverage indicators**

The overall gearing ratio and long term debt to equity ratio of the company were comfortable at 0.34x and 0.27x respectively as on March 31, 2019. The interest coverage ratio stood at 2.81x in FY19, which has improved from 1.45x in FY18. Total debt to gross cash accruals was comfortable at 3.81x in FY19. However, the DSCR has been on the lower side over the last three years; albeit improvement from 0.62x in FY18 to 1.05x in FY19.

## **Presence in niche segment and strategic location of the airfield**

The company is in the niche business of manufacturing aero components, aero structures and aircraft assemblies. The facility of the company is located at a distance of ~80 kms from Kempegowda International Airport, Bengaluru and ~25 kms from Electronic City, the hub of the software industry in India. The facility is spread over an extensive area of 248 acres which includes aircraft hangars, an airfield having airstrip of ~2.28 kms with night landing facilities.

## **Key Rating Weaknesses**

### **Range bound and moderate scale of operation**

Total operating income of the company has remained in the range of Rs.30-Rs.35 crore over the last few years. The scale of operation continues to remain moderate in spite of the company being in business for over two decades. However, total operating income of the company has marginally increased from Rs.31.51 crore in FY18 to Rs.32.73 crore in FY19.

### **Moderate order book position**

The company had an outstanding order book of Rs.23.33 crore (~71% of FY19 revenue) as on June 30, 2019 primarily from HAL, VSSC, IAF and other regular clients. The order book position of the company is moderate providing limited revenue visibility in the short run.

### **Complex nature of business**

Manufacturing of aero components, aero structures and aircraft assemblies is complex in nature with various safety aspects, tests and trial procedures involved, resulting in delays. This might impact the operation and business deliverables of the company. Administrative policy delays by various government agencies lead to cost escalation making the business economically unviable.

## **Analytical Approach & Applicable Criteria**

Standalone

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

## Liquidity

The company's liquidity position has remained stretched due to losses reported in the past and low profitability over the last few years. The company maintains moderate cash balances to meet its liquidity requirements. The utilization of working capital limits also remained on the higher side (~90%) during the 12 months ended June 30, 2019. The projected DSCR is low particularly due to significant debt obligations in the near future (although utilization of lease rental from hangars for debt repayment provides some comfort). Therefore, the liquidity position is expected to remain tight in the short to medium run. However, the company is presently earning a modest level of cash accruals and the same is expected to increase gradually with increase in scale of operation and level of margin.

## About the Company

Taneja Aerospace and Aviation Limited (TAAL) was established in July 1991 as a private limited company. The company is involved in the manufacturing of aero components, aircraft modifications, maintenance and upgrades of aircraft assemblies. TAAL was promoted by Mr. Salil Taneja, who has over 25 years of industry experience. Mr. Muralidhar Chetteti Reddy is the Managing Director and responsible for the day-to-day operations of the company.

The company was listed on the Bombay Stock Exchange (BSE) on January 2001. Presently, Indian Seamless Enterprises Ltd. (ISEL) is the holding company of TAAL, with 50.75% of total shares as on June 30, 2019. The company is headquartered in Bengaluru with registered office in Denkanikottai, Tamil Nadu (near Hosur).

## **Financials (Standalone)**

**(Rs. crores)**

<b>For the year ended* / As On</b>	<b>31-03-2018 (Audited)</b>	<b>31-03-2019 (Audited)</b>
Total Operating Income	31.51	32.73
EBITDA	7.26	13.88
PAT	0.15	5.16
Total Debt	35.67	31.26
Tangible Networth	86.45	92.52
EBITDA Margin (%)	23.06	42.41
PAT Margin (%)	0.47	15.47
Overall Gearing Ratio (x)	0.41	0.34

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

Any other information: N.A

**Rating History for last three years:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	9.70 (including proposed limit of Rs.2.80 crore)	IVR BB- /Stable Outlook	--	--	--
2.	Long Term Debt – Term Loan	Long Term	23.11	IVR BB- /Stable Outlook	--	--	--
3.	Non-Fund Based Facilities – LC/BG	Short Term	12.19	IVR A4	--	--	--

**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](http://www.infomerics.com).

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Assigned/ Outlook
Cash Credit	--	--	--	9.70 (including proposed limit of Rs.2.80 crore)	IVR BB- /Stable Outlook
Term Loan	--	11.75% p.a.	Nov 2023	23.11	IVR BB- /Stable Outlook
Bank Guarantee	--	--	--	9.19	IVR A4
Letter of Credit	--	--	--	3.00	IVR A4