

## Rating Rationale

28 Aug 2020

### Apollo Computing Laboratories Pvt Ltd

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs 55.20 Crs. of Apollo Computing Laboratories Pvt Ltd ('ACLPL' or 'the company').

#### Particulars

Facilities**	Amount (Rs. Crs.)	Tenure	Rating*
<b>Fund based</b>			<b>BWR BB/Stable Assigned</b>
Term Loan	5.00	Long Term	
OCC/ODBD	12.00		
DPN	8.00		
WC DL	1.20		
<b>Non Fund Based</b>			<b>BWR A4+ Assigned</b>
Bank Guarantee	23.00	Short Term	
Letter of Credit	6.00		
<b>Total</b>	<b>55.20</b>	<b>Rupees Fifty Five Crores and Twenty Lakhs Only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

#### Rating Action/Outlook

The ratings reflect the established track record, experienced management, long standing relationships with reputed clientele, healthy order book position, diversification of revenue streams as the company has entered the medical equipment industry and a moderate financial risk profile with modest scale of operations, networth and gearing. The ratings are constrained by the working capital intensive nature of operations reflected by a stretched conversion cycle, exposure to forex risks and the impact of Covid 19 on the core operations of the company.

BWR has taken note of the potential impact of Covid 19 on the business and financial risk profiles of the company. Due to the lockdown, the manufacturing units of the company remained shut in Apr-May 2020 and operations resumed at full capacity only from June. The ability of the company to get necessary clearances, execute existing orders and ensure timely realisation of receivables will be a key monitorable. Brickwork Ratings (BWR) takes cognizance of the Covid-19 moratorium package by the Reserve Bank of India (RBI) and the guidance provided by the SEBI vide its circular dated 30 March 2020 in this regard. BWR notes that ACLPL has availed relief under the aforementioned package and its scheduled payments to Canara Bank have been deferred upto 31 Aug 2020. BWR would not be considering such non-payments as



default for the time being. The company has also been sanctioned a Working Capital Demand Loan of Rs 1.20 Crs by Canara Bank in May 2020 under the Common COVID-19 Emergency Credit Line. BWR will continue to monitor the developments in this regard and analyse the impact, if any, on the company's credit profile.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that ACLPL's business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if significant increase in revenue or profitability, improvement in capital structure, liquidity and better working capital management strengthen the business risk and financial risk profiles of the company. The rating outlook may be revised to 'Negative' if the revenues and profits are lower than anticipated, there is deterioration in liquidity or any large, debt funded capital expenditure and/or any stretch in the working capital cycle weakens the financial risk profile

### **Key Rating Drivers**

#### **Credit Strengths:**

**Experienced management and established track record:** The company was established in 1992 and has an operational track record of almost 3 decades. The management led by Mr Jaipal Baddam Reddy, Managing Director, is well qualified and experienced in the industry. The extensive experience of the directors and their understanding of the dynamics of the industry is expected to continue to support the business risk profile.

**Established relationships with reputed clientele:** Over the years, the company has fostered relationships with reputed clients and established a strong client base. The company has been getting repeat business from these clients on a sustained basis which has facilitated growth in its scale of operations. This also reflects favourably on the company's track record and technical expertise. The company primarily caters to the defence and aerospace sector and some of the key clients are Hindustan Aeronautics Ltd, Defence Research and Development Laboratory, Advance Systems Laboratory, Armament Research and Development Establishment etc. The company presently has orders of ~Rs 66 Crs on hand from the defence and aerospace sectors to be completed in the current financial year. The company has now entered the medical equipment industry by developing SwasthVayu - Non invasive ventilators with knowledge transfer from CSIR-NAL which are in demand for Covid treatment. The company has signed an MoU with Jubilee Hospitals, Secunderabad for the same and has orders of ~Rs 59 Crs on hand from this segment. The ability of the company to execute orders and ensure timely realisation of receivables will be a key monitorable.

**Moderate financial risk profile:** Total revenue increased from Rs 17.50 Crs in FY18 to Rs 30.49 Crs in FY19 while PAT increased from Rs 1.16 Crs in FY18 to Rs 2.45 Crs in FY19. On a provisional basis, the company has reported revenue of Rs 43.81 Crs and PAT of Rs 3.16 Crs in FY20 (P). Although the scale of operations has been increasing, it continues to be modest.



The company's entry into the medical equipment industry is expected to increase the scale of operations going forward. Tangible Net Worth was Rs 26.16 Crs as on 31 Mar 2019 and gearing was comfortable at 1.35 times as on 31 Mar 2019. Net profit margin was 8.02% and Operating Profit Margin was 28.12% in FY19.

### **Credit Challenges:**

**Working Capital intensive nature of operations:** The operations of the company continue to be working capital intensive as reflected by a stretched working capital cycle of 508 days in FY20 (P) as against 577 days in FY19. As the company primarily caters to the aerospace and defence sector, the lead time of the projects is usually long owing to the complexity of the products and strict quality checks that they have to go through. Hence, inventory holding period was high at 441 days in FY20 (P) as against 450 days in FY19. Receivables days are also stretched at 140 days in FY20 (P) as against 208 days in FY19.

**Forex Risk:** The company imports certain raw materials such as microprocessors etc from USA, France, Israel etc. ~24% of the raw material is imported. However, the company has no specific mechanism to hedge forex risk and hence profitability is exposed to volatility in forex rates.

**Impact of Covid:** Due to the lockdown, the manufacturing units of the company remained shut in Apr-May 2020 and operations resumed at full capacity only from June. The company operates in an industry where production is subject to clearances from regulatory bodies at every stage. Due to the ongoing pandemic, there was a delay in getting the necessary clearances in Q1FY21 which slowed down the operations. Hence, the ability of the company to get required clearances in a timely manner, execute existing orders and ensure timely realisation of receivables will be a key monitorable. Presently, sufficient raw material stock is maintained for all secured orders and hence the supply chain disruption has not led to any raw material shortage. However, any change in the regulatory policies with respect to imports may impact the company negatively as ~24% of raw material is imported.

### **Analytical Approach and Applicable Rating Criteria**

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities**

Going forward, the ability of the company to increase the scale of operations, improve profitability, efficiently manage its working capital requirements, strengthen its liquidity and overall credit profile would be the key rating sensitivities.

### **Positive:**

- Improvement in scale of operations and profitability on a sustained basis, with timely execution of orders on hand and fresh order inflow.
- Prudent management of working capital and strengthening of liquidity

**Negative :**

- Prolonged impact of Covid 19 on revenues and cash flows or any disruptions in the supply chain leading to deterioration in the financial risk profile
- Further stretch in the working capital cycle weakening the liquidity position
- Continued delays in payment of statutory dues
- Specific credit metrics that may result in a downward rating action include (1) Total Debt/TNW above 2.25 times on a sustained basis, (2) Net profit margin below 5% on a sustained basis

**Liquidity: Stretched** - Working capital facilities were fully utilised over the last 6 months and hence the company has limited access to additional fund based limits to manage working capital requirements. Net cash accruals were ~Rs 4.27 Crs in FY20 as against the debt repayments of ~Rs 6.27 Crs in FY21 which includes repayment of Rs 4.00 Crs towards the DPN. Current ratio was adequate at 1.57 times while Net cash accruals to total debt was 0.11 times as on 31 Mar 2020 (P). Cash and Cash Equivalents were ~Rs 4.78 Crs as on 31 Mar 2020 (as against Rs 3.54 Crs as on 31 Mar 2019). BWR has also noted that the company has availed moratorium benefits upto 31 Aug 2020 under the Covid 19 moratorium package announced by RBI. The company has also been sanctioned a Working Capital Demand Loan of Rs 1.20 Crs by Canara Bank in May 2020 under the Common COVID-19 Emergency Credit Line. Increase in the scale of operations, timely recovery of receivables and need based infusion of capital from promoters will be key for a comfortable liquidity position.

**Company Profile**

Apollo Computing Laboratories Pvt Ltd was incorporated in 1992 at Hyderabad, Telangana. It has been involved in the manufacturing of Electronic Systems in the domain of embedded computing for the National Programmes of AGNI-II, LCA (Light Combat Aircrafts), Torpedoes, Space & Remote Sensing. The company has two manufacturing units located at Hyderabad and Bangalore and a missile assembly unit is being constructed at Shamshabad, Telangana. The company primarily caters to the aerospace and defence industry. It has now entered the medical equipment industry with the manufacturing of 'Swasthvayu' Non Invasive ventilators that are being used for treatment of Covid 19.

Mr Jaipal Baddam Reddy is the Managing Director and Mr Mahipal Baddam Reddy and Mrs Molakatalla Pramela Reddy are the other directors. It is a family owned business.

## Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Total Operating Income	Rs Crs	17.50	30.49
EBITDA	Rs Crs	5.59	8.57
Profit After Tax	Rs Crs	1.16	2.45
Tangible Net Worth	Rs Crs	23.76	26.16
Total Debt: Tangible Net Worth	Times	1.36	1.35
Current Ratio	Times	1.44	1.57

On a provisional basis, the company has reported revenue of ~Rs 43.81 Crs in FY20.

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Non-cooperation with previous CRA** - India Ratings, vide a press release dated 29 Jun 2020, has migrated the ratings to 'Issuer Not Cooperating' category due to non availability of adequate information to review the ratings.

## Rating History for the previous three years [including withdrawal and suspended]

Facilities	Current Rating (Aug 2020)			Rating History		
	Tenure	Amount (Rs. Crs.)	Rating	2019	2018	2017
<b>Fund Based</b> Term Loan OCC/ODBD WC DL DPN	Long Term	5.00 12.00 1.20 8.00	<b>BWR BB/ Stable</b>	Nil		
<b>Non Fund Based</b> Bank Guarantee Letter of Credit	Short Term	23.00 6.00	<b>BWR A4+</b>			
<b>Total</b>		<b>55.20</b>	<b>Rs Fifty Five Crores and Twenty Lakhs Only</b>			



**Complexity Levels of the Instruments:**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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**Apollo Computing Laboratories Pvt Ltd**

**Annexure I**

**Details of Bank Loan Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (Rs.Crs.)</b>	<b>Short Term (Rs.Crs.)</b>	<b>Total (Rs.Crs.)</b>
1	Canara Bank	Term Loan	5.00*	-	<b>5.00</b>
		OCC/OBBD	12.00	-	<b>12.00</b>
		WCDL	1.20	-	<b>1.20</b>
		DPN 1	3.00^	-	<b>3.00</b>
		DPN 2	5.00^	-	<b>5.00</b>
		Bank Guarantee 1	-	20.00	<b>23.00</b>
		Bank Guarantee 2	-	3.00^	
		Letter of Credit 1	-	4.00	<b>6.00</b>
Letter of Credit 2	-	2.00^			
<b>Total: Rupees Fifty Five Crores and Twenty Lakhs Only</b>					<b>55.20</b>

\*Rs 3.79 Crs has been disbursed as on 24 Aug 2020

^Project specific loans



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**DISCLAIMER** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.