



## Rating Rationale

29 Nov 2019

### Avishkar Innovative Pvt Ltd

**Brickwork Ratings upgrades the rating for the bank loan facilities of Rs. 30.00 Crs of Avishkar Innovative Pvt Ltd ('AIPL' or the 'Company')**

#### Particulars:

Facility	Amount (Rs Crs)		Tenure	Ratings <sup>^</sup>	
	Previous	Present		Previous (Aug 2018)	Present
<b>Fund based:</b>					
Project Specific - PCFC	30.00	30.00	Long term	BWR BB-/Stable	<b>BWR BB/Stable Upgraded</b>
<b>Total</b>	<b>30.00</b>	<b>30.00</b>	<b>Rupees Thirty Crores Only</b>		

Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings; <sup>^</sup>Rating moved to Not Reviewed Advisory on 30 Aug 2019

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

#### Rating Action/Outlook

The rating upgrade reflects the company's improved operational performance marked by increased profitability, improved net worth and modest revenue. The rating continues to reflect the established track record, experienced and professional management, growth prospects of the industry, order book position and moderate financial risk profile characterised by adequate liquidity and debt protection metrics. The rating, however, remain constrained by the modest scale of operations, high level of competition, susceptibility to demand trends in the key export markets and forex fluctuations and working capital intensity of the operations.

The '**Stable**' outlook indicates a low likelihood of rating change over the medium term. BWR believes **Avishkar Innovative Pvt Ltd's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations and higher than envisaged profitability result in an improved financial risk profile and better gearing and debt protection metrics. The outlook may be revised to Negative if lower than expected revenue or profitability, a stretch in the working capital cycle, delay in obtaining enhancement in working capital limits, sizeable, unanticipated capex or weakening gearing adversely impact the financial risk profile.



## Key rating drivers

### Credit Strengths:

- **Experienced management & established track record** - The promoters have extensive business experience in the line of test programming services, spanning over two decades. The company, with an established track record of 4 years, is a technology integrator that offers services and turnkey solutions in Automation Products & Embedded domain. .
- **Established relationships with reputed clientele and healthy order book position** - The 100% export oriented company enjoys established relationships with clients spread across various countries. The company enjoys the patronage of the customers for more than 3 years. The Company has an order book of ~USD 63 Mn from the top 2 customers, for execution during the year.
- **Moderate financial risk profile** - The company's risk profile continues to remain moderate reflected by modest revenue, improved profitability and networth, moderate gearing and adequate debt protection metrics. Operating income marginally declined to Rs.48.22 Crs in FY19 against Rs. 51.68 Crs in FY18, mainly due to forex fluctuations. However, PAT improved to Rs. 4.72 Crs during FY19 as against Rs. 2.52 Crs during FY18. Tangible net worth improved to Rs. 13.58 Crs as on 31st March 2019, from Rs. 8.87 Cr as on 31 Mar 2018. As such, Total debt/Tangible net worth improved to 2.57 times as on 31st March 2019. Debt servicing capabilities remained adequate reflected by ISCR of 6.49 times during FY19.

### Credit Challenges:

- **Susceptibility of profitability to demand trends in key export markets and currency movements** – The company derives its entire revenue through exports, thereby exposing its turnover and profitability to demand trends and economic downturns in the key export markets as well as fluctuations in foreign exchange rates. However, BWR notes that the company's forex exposure are naturally hedged by way of packing credit facility availed in foreign currency.
- **Order book concentration** - The ratings are sensitive to customer concentration as ~90% of the revenue is contributed by the top 2 customers in the past and in the current order book.
- **Highly competitive nature of industry** - AIPL operates in a highly competitive information technology service providers industry segment, which restricts pricing flexibility.
- **Working capital intensity** - The Company has large working capital requirements, as reflected in the elongated conversion cycle due to the high inventory holding days (resulting from software under development) over the last 3 years.



## **Analytical approach and Applicable Rating Criteria**

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

### **Rating sensitivities:**

The ability of the Company to improve the scale of operations, profitability and gearing level, manage risks from forex fluctuations and ensure efficient management of working capital will remain crucial determinants of its credit profile.

#### **Positive**

- Healthy growth in revenues and earnings with improvement in competitive position, lending more diversity to its business profile and stability to earnings.

#### **Negative**

- Deterioration in key credit metrics owing to sustained pressure on operating profits or a sharp rise in inventory levels. Specific credit metrics which may result in a rating downgrade include weakening of gearing level and ISCR on a sustained basis.

**Liquidity - Adequate:** The company's utilization of working capital continues to remain almost full over the last 12 months. However, Current ratio was 2.45 times and Cash Equivalents Rs. 0.16 cr as on 31 Mar 2019.

### **About the Company**

Avishkar Innovative Pvt Ltd was incorporated in 2015, at Bangalore, Karnataka. The Company is a technology integrator company that offers services and turnkey solutions in Automation Products & Embedded domain. It provides automation solutions to companies operating in the field of telecommunications, embedded systems, education & media development, insurance, transport, utilities, education, medical. The company also provides security solutions to IT Infrastructure through surveillance products and server, storage and virtualization services.

Mrs. Raksha Udupa and Mrs. Sulochana Udupa are the directors.

## Key Financial Indicators

Parameters		31 Mar 2018 Audited	31 Mar 2019 Audited
Operating Income	Rs. Crs	51.68	48.22
Operating Profit	Rs. Crs	(0.26)	12.42
Net Profit	Rs. Crs	2.52	4.72
Tangible Net Worth (TNW)	Rs. Crs	8.87	13.58
Total Debt/TNW	Times	4.21	2.57
Current Ratio	Times	2.65	2.45

During 7MFY20 (provisional), the company has achieved operating income of ~Rs. 45 Crs

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

**Status of non-cooperation with previous CRA - Nil**

**Rating History for the last three years:**

Facility	Current Rating (Nov 2019)			Rating History <sup>^</sup>	
	Amount (Rs Crs)	Tenur e	Rating	29 Aug 2018	2017
<b>Fund based</b>					
Project Specific - PCFC	30.00	Long Term	<b>BWR BB/Stable</b>	BWR BB-/Stable	-
<b>Total</b>	<b>30.00</b>	<b>Rupees Thirty Crores Only</b>			

<sup>^</sup>Rating moved to Not Reviewed Advisory on 30 Aug 2019

## 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

<a href="#">General Criteria</a>	<a href="#">Services Sector</a>
<a href="#">Approach to Financial Ratios</a>	

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**Annexure I:**  
**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Canara Bank	Project Specific - PCFC*	30.00	-	30.00
		<b>Total</b>	<b>30.00</b>	<b>-</b>	<b>30.00</b>

*\*Project Specific - PCFC limit is valid for 2 years.*



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