AVL/SE/2023-24 May 24, 2024

To
The Corporate Relations Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 001.

Dear Sir/Madam,

Sub: Intimation of Credit Rating under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Ref: Scrip Code: 532406 (BSE); ISIN: INE005B01027

Pursuant to the provisions of Regulation 30 (read with Schedule III) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that M/s. CARE Ratings Limited ('CARE Ratings'), a Credit Rating Agency, has issued a press release dated May 23, 2024, assigned the following ratings:

Sl. No.	Facilities	Amount (Rs. in Crore)	Rating/Outlook	Rating action
1.	Long Term Bank Facilities – Fund based	28	CARE A-; Stable	Assigned
2.	Long Term / Short Term Bank Facilities – Non-fund based	42	CARE A-; Stable / CARE A2+	Assigned

A copy of the Press Release issued by the Credit Rating Agency is enclosed herewith and is also available on the website of the Company at www.avantel.in.

This is for your information and records.

Yours faithfully,

For **Avantel Limited**

DONDETI RAJASEKHARA REDDY
Digitally signed by DONDETI RAJASEKHARA REDDY
Date: 2024.05.24 11:14:01 +05'30'

D. Rajasekhara Reddy
Company Secretary

Avantel Limited

May 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	28.00	CARE A-; Stable	Assigned
Long-term / Short-term bank facilities	42.00	CARE A-; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Avantel Limited (Avantel) are driven by its established presence in the defence electronics segment for over three decades, qualified promoters and management team, strong and sustained operating margins of over 30%, and healthy return on capital employed (ROCE) of more than 40%. The company is expected to maintain comfortable capital structure and healthy profitability margins backed by in-house developed proprietary products especially in satellite communication (SATCOM) segment which is the major revenue contributor for Avantel. Ratings further draw comfort from its established clientele comprising marquee clients such as Indian Navy, Bharat Electronics Limited, Lockheed Martin, and Indian railways among others. These clients are majorly central government organisations which are of strategic importance in Aerospace and defence sectors.

However, rating strengths are partially offset by moderate scale of operations, relatively low net worth base, and elongated operating cycle. Though the company's revenue has been growing supported by positive developments in the industry such as 'Atmanirbhar Bharat', it continues to remain small despite its long presence in the sector. The operations are marked by long gestation period between product development and final delivery which necessitates regular capital allocation, the operating cycle also remains elongated due to high inventory holding and moderately stretched receivable days which results in elevated working capital needs. The company has significant dependence on bank guarantee lines, which is likely to further increase with higher inflow of orders. The company's ability to efficiently manage its working capital while improving its gross current assets days thereby strengthening its liquidity will remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing revenue from operations while maintaining profit before interest, lease rentals, depreciation and tax (PBILDT) margin above 30% on a sustained basis.
- Shortening of operating cycle to less than 100 days resulting in healthy operating cash flows and superior liquidity.

Negative factors

- Inability to improve revenue from operations or PBILDT margin falling below 25%.
- Sustained pressure on working capital cycle and any significantly increasing fund-based or non-fund-based bank borrowings impacting company's gross leverage position.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from its established presence in the defence electronics segment while maintaining a healthy financial risk profile.

Detailed description of key rating drivers:

Key strengths

Healthy track record and strong relationships with various important defence organisations

Avantel has been operating in the defence sector for more than three decades. Over the years, the company has established itself as one of the key defence manufacturers in India with proven ability to timely deliver projects. Specialising in wireless and satellite communication products, the company serves clients which are of strategic importance in the aerospace and defence sectors.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key clientele includes Indian Navy (Material organisation, Indian Coast Guard, Cochin Shipyard Limited, and Directorate of Naval Signals among others), Bharat Electronics Limited, Lockheed Martin, Satish Dhawan Space Centre (SDSC) SHAR, Indian railways (through L&T), and The Boeing Company, among others.

Experienced promoters and qualified management team

Dr Abburi Vidyasagar, the Chairman and Managing Director, established the company in 1990, leveraging his extensive experience in electronics and communication engineering. Holding a postgraduate degree from IIT, Kharagpur, Dr Vidyasagar has accumulated over four decades of expertise in the industry. Under his leadership, the company has accumulated over 30 years of experience in designing, developing, manufacturing, system engineering, deployment, and providing after-market support for a diverse range of defense electronics products. Dr Vidyasagar is supported by his son, Abburi Siddhartha Sagar, handling business development and strategy at Avantel. Siddhartha Sagar holds a master’s degree in computer science from the Ira A. Fulton Schools of Engineering at Arizona State University, complemented by an MBA from the WP Carey School of Business at Arizona State University.

Strong profitability margins, growing albeit moderate scale

The revenue from operations stands moderate at ₹223.92 crore in FY24, although the company witnessed around 44% growth in revenue compared to FY23. This growth is primarily driven by enhanced order book of Mobile Satellite Services (MSS) network products, successful deployment of the recently introduced Real-time Train Information System (RTIS) for Indian railways and 1KW HF project for Indian Navy. The company has been consistently maintaining strong profitability margins marked by PBILDT margin of 32% for FY23 and 37% in FY24. Strong profitability margins are underpinned by the company's portfolio of indigenously designed, developed, and manufactured proprietary products in the SATCOM segment. The company has a modest order book providing short-term revenue visibility.

Satisfactory capital structure with absence of term debt

Financial risk profile of the company stands comfortable marked by overall gearing of 0.10x as on March 31, 2024 and 0.27x as on March 31, 2023. Notably, the company has no outstanding term loans and the majority of its total debt comprises working capital borrowings. Other debt coverage metrics also indicate a healthy position, with the Total debt/GCA ratio at 0.28x for FY24 and at 0.87x for FY23.

Strong technical know-how and in-house R&D facilities

Avantel’s in-house R&D facility comprises a team with expertise in key technological areas of electronic hardware, electronic software, product design, after sales product support, and obsolescence management. The technologies used in the various mechanical and electronic parts are developed in-house by the company thereby strengthening its foothold in the SATCOM space.

Key weaknesses

Long gestation period between product development and final delivery

Being a defence product manufacturer, Avantel’s products undergo rigorous testing before a final order is awarded. The entire process to win an order and begin commercial production takes about 1-1.5 years, in addition to product development (between RFI and RFP), which itself can take about two to three years. The initial phase of product development also demands a substantial time, averaging around two years to establish proof of concept. This necessitates regular capital allocation for product development/upgradations and financial resilience to see through the development stage, with the risk of orders not getting materialised. CARE Ratings observes, it is important for the company to continuously invest in new products and have healthy project pipeline in RFI/RFP stages.

Elongated working capital cycle

The working capital cycle has elongated, standing at 188 days for FY24 compared to 179 days for FY23. The deterioration primarily stems from the increase in the inventory holding period, which deteriorated from 107 days in FY23 to 116 days in FY23. However, the gross current assets days have improved to 214 days for FY24 from 251 days in FY23 due to growth in the scale of operations. The operating cycles vary by project type. While proven solutions have shorter and less intensive cycles, larger new projects typically have a two-year cycle requiring substantial working capital. Avantel mitigates these challenges by partnering exclusively with the central government and government PSUs, ensuring reliable and contractually guaranteed payments. This arrangement allows effective supply chain management and maintaining a debt-free status, despite the long lead times associated with semiconductor imports.

Liquidity: Adequate

The company has been generating sufficient accruals and does not have any long-term debt in its books. While the working capital (especially bank guarantees) requirement may continue to remain high primarily due to increasing orderbook size and elongated operating cycle, the average utilisation of fund-based limits stands at 60-70% thereby providing cushion to liquidity. Cash flows from operations (CFO) generated by the company in earlier years were weak which has now improved from ₹4.71 crore in FY23 to ₹62.08 crore in FY24. Sustaining this improved CFO will be a key monitorable going forward. Liquidity is further supported by free cash and cash equivalents of around ₹12 crore as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Environmental	The Company has a risk management committee overseeing environmental and sustainability related matters.
Social	Company regularly spends towards healthcare as a part of its CSR activity and as recommended by the company's CSR Committee.
Governance	The company has an audit committee, a nomination and remuneration committee, risk management committee and stakeholders relationship committee in compliance with SEBI LODR regulations, ensuring adherence to corporate governance standards.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Equipment & Accessories	Telecom - Equipment & Accessories

Founded in 1990 by Dr Abburi Vidyasagar (Chairman and Managing director), Avantel has been a prominent player in the defense electronics segment for over three decades. Incorporated as a private limited company, it transitioned to a public limited company in 1994, and subsequently listed on the Bombay Stock Exchange (BSE) in 2000. Avantel specialises in the design, development, manufacturing, system engineering, deployment, and after-market support of a diverse range of defence electronics products. The company's core competencies include wireless and satellite systems, RF system design, embedded systems and signal processing, network management and software development, and engineering and IT services.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	105.54	154.62	223.92
PBILDT	28.35	49.83	84.41
PAT	19.18	30.04	55.45
Overall gearing (times)	0.19	0.27	0.10
Interest coverage (times)	18.76	10.25	20.22

A: Audited. Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

CareEdge RATINGS

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	28.00	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	42.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type *	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash credit	LT	28.00	CARE A-; Stable				
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	42.00	CARE A-; Stable / CARE A2+				

*LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all entities consolidated: Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91 80-46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Nivedita Anirudh Ghayal Associate Director **CARE Ratings Limited** Phone: +91-040 40102030 E-mail: nivedita.ghayal@careedge.in Sainandan S Pavansri Analyst **CARE Ratings Limited** E-mail: Sainandan.Pavansri@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in