Press Release

Defsys Solutions Private Limited [DSPL]

June09, 2021

Rating

S. No	Instrument/ Facility	Amount (INRCrore)	Ratings	Rating Action
1	Proposed Long Term Fund Based Bank Facility – Cash Credit	60.00	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	Assigned
2	Proposed Short Term Non- Fund Based Bank Facility – Bank Guarantee	51.26	IVR A3+ (IVR Single A Three Plus)	Assigned
	Total	**111.26**		

Details of facilities are in Annexure 1

Rating Rationale

The ratingderivesstrength fromExperienced management team with established track record in high entry barriers sector,Comfortable debt protection metrics&Healthy financial risk profile, Healthy unexecuted order book position providing near to medium term revenue visibility and Established relationships & tie ups with internationally recognized defence company. Therating however is constrained by inherent industry risk due to Changes in Government Policies and highly regulated industry.

Positive outlook reflects government impetus on indigenous defence equipment manufacturer and healthy order book.

Key Rating Sensitivities:

Upward Rating Factor:

- Procurement of new orders providing medium term revenue visibility along with a substantial and sustained improvement in the revenue while maintaining the debt protection metrics.

Downward Rating Factor:

- Any decline in the revenue & profitability leading to substantial & sustained deterioration of the debt protection metrics.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced management team with established track record in high entry barriers sector

DSPL has an established track record of more than a decade in providing total solution from concept to realization, with quality and reliable products integration as per specific requirements of customers.It has successfully executed many defence projects.DSPL is ledby Mr. Samar Bhargava, Director who has over two decades of experience in Aero space & Defence sector. Another Director Mr. Raghuvansh Pratap Kashyap is an Indian Air Force veteran with over 32 years of experience in various strategic roles.Mr. Ajay Kumar Singh Chandele, Chairman is an Indian Army Veteran with over 40 years of experience.DSPL is further supported by a qualified & experienced team, who have been working with them for over a decade.

The industry is relatively concentrated as there are entry barriers in the form of technology involved, long gestation period from conceptualization to implementation and stringent qualification norms for defence tenders. This act as deterrents for new players looking to enter this market. However, DSPL has established its market position and is one of the leading players in their segment.

Comfortable debt protection metrics & healthyfinancial risk profile

DSPL's capital structure is marked by comfortable overall gearingof 0.00x as on March 31, 2021 (FY20:0.01x) in absence of any majordebts. Long Term Debt Equity ratio (times) at 0.00x as on March 31, 2021 (FY20: 0.01x). Total indebtedness as reflected by the TOL/TNW remain at 1.91x as on March 31, 2021 (FY20: 3.38x). Interest coverage was at 63.61x as on

March 31, 2021 (FY20: 42.33x). The overall debt protection metrics will reduce marginally from FY22 onwards due to upcoming proposed debt. However, debt protection metrics will still remain comfortable & healthy.

Healthy unexecuted order book position providing near to medium term revenue visibility

The company's unexecuted order book stands at around INR770.00 crore as on April 01st, 2021, which needs to be executed by FY24. Furthermore, the company also have the confirm revenue visibility in the form of Annual Maintenance Contract (AMC). The after-sales support constitutes a major part of the company's business as the products are highly specialized and tailor made based on the requirements of the customers. The order consists of domestic as well as overseas clients.

Established relationships&tie ups with recognized defence company

DSPL's has a long-term association with reputed customers in defence sector like Dassault Aviation, Rafael Advance Defence Systems, Bharat Electronics Limited and Hindustan Aeronautics Limited whichprovides stability to its business. DSPL receives significant amount of customer advances for up to50% for their overseas orders. The working capital requirements for overseas orders of the company are met through customer advances which helps company to reduce its reliance on outside debt.

Key Rating Weaknesses

Inherent industry risk due to changes in Government Policies&Highly regulated Industry

Apart from the regulatory risk some of the other risks that industry faces are dependence on Government for substantial portion of business, high R&D costs with no certainty that the product will be accepted by the customer, stricter user acceptance, high marketing costs & competition from other foreign players. And there is seasonality in order execution cycle and project-related risks. The R&D cycle of Defence products and solutions is long and could stretch for several years. However, DSPL has established its market position and is one of the leading player in their segment.

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Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for ManufacturingCompanies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Strong

Strong liquidity is marked by healthy cash accrual in FY20, against insignificant or nil repayment obligations as DSPL is almost debt free as on 31st March 2020. Furthermore, strong liquidity is supported by Cash& Cash equivalent of INR18.99 crore as on 31st March 2020. The customer advances also support liquidity for DSPL, and it stood at INR100.56 Cr as on 31st march-2020.

About the company

M/s Defsys Solutions Private Limited (DSPL) was incorporated in 2007, having its registered office at Hoskote, Bangalore. It has two facilities situated at Gurgaon &Bangalore. DMG Finance & InvestmentsPrivate Limited holds99.99% shares in DSPL.

Financials (Standalone)(INR crore)

For the year ended / As on*	31-03-2019 (Audited)	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	588.11	411.90	413.90
EBITDA	90.51	66.82	112.05
PAT	83.67	64.35	78.39
Total Debt	0.19	0.85	0.51
Tangible Net Worth	105.86	164.01	238.19
EBIDTA Margin (%)	15.39	16.22	27.07
PAT Margin (%)	13.69	14.84	18.66
Overall Gearing ratio (x)	0.00	0.01	0.00

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: N.A.
Any other information: N.A.

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-2022)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Proposed Long Term Fund Based Bank Facility – Cash Credit	Long Term	60.00	IVR BBB/ Positive outlook (IVR Triple B with Positive outlook)	--	--	--
2.	Proposed Short Term Non- Fund Based Bank Facility – Bank Guarantee	Short Term	51.26	IVR A3+ (IVR Single A Three Plus)	--	--	--

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

Name and Contact Details of the Analysts:

Name: Ms. Himani Singhal

Tel: (022) 62396023

Email: hsinghal@infomerics.com

Name: Mr. Amit Bhuwania

Tel: (022) 62396023

Email: abhuwania@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

Annexure 1: Details of Facilities

Sr. No	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Proposed Long Term-Fund Based - Cash Credit	--	--	--	60.00	IVR BBB/ Positive outlook
2	Proposed Short Term-Non-Fund Based -Bank Guarantee	--	--	--	51.26	IVR A3+

Annexure 2: Facility wise lender details: Lenders-DSPL-09-06-21.pdf