

Rating Rationale

July 07, 2022 | Mumbai

Tata Advanced Systems Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.8000 Crore (Enhanced from Rs.6845 Crore)
Long Term Rating	CRISIL AA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank facilities of Tata Advanced Systems Limited (TASL).

Fiscal 2022 revenue logged in a robust growth of over 65%, led by the Land Mobility division acquisition, full year impact of the Weapons & Sensors Division and recovery in the aerospace segment due to committed deliveries schedule. As of April 2022, the company had a strong order book exhibiting revenue visibility of over four years.

Operating margin improved to over 14% in fiscal 2022 compared to ~10% in fiscal 2021 aided by improved operating leverage, synergies post acquisition and turn around in Weapons & Sensors Division. While there could be increase in input costs given high commodity prices however margins should remain cushioned by cost escalation clauses being present in many contracts.

Equity infusion of Rs 630 crore from parent in fiscal 2022 towards retirement of financing taken for acquisitions. This led to debt/Ebitda improving to below 4 times in fiscal 2022 compared to above 9 times in previous fiscal. With no significant debt funded capital expenditure and improving profitability, debt/Ebitda should sustain below 3.6 times going forward.

The ratings continue to reflect TASL's established market position in the aerospace and defence segments, aided by the company's strategic tie-ups with global players and strong support from its parent, Tata Sons (rated 'CRISIL AAA/Stable/CRISIL A1+'). These strengths are partially offset by high working capital requirement and moderate financial risk profile.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has fully consolidated the business and financial risk profile of TASL's subsidiaries and joint ventures (JVs) on account of similar business profile, and significant operational and financial linkages. The subsidiaries include Nova Integrated Systems Ltd, Aurora Integrated Systems P Ltd and its JV companies include Tata Sikorsky Aerospace Ltd, Tata Lockheed Martin Aerostructures Ltd, Hela Systems Pvt Ltd, LTH Milcom Pvt Ltd. and Tata Boeing Aerospace Ltd.

CRISIL Ratings has also applied its parent notch-up framework to factor in the intensity of support that TASL receives from the parent, Tata Sons.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position and strategic tie-ups with global players

TASL has emerged as a dominant player in India catering to the global aerospace business, supported by its strategic tie-ups with original equipment manufacturers (OEMs) and strong capabilities across the aerospace value chain. It assembles and supplies composites, such as wings, fuselage, empennage, floor beams and cabins to both tier-I and II OEMs, as well as engine components to tier-I players. Over the last several years, it has added major aerospace players as clients, including Boeing, Sikorsky, Lockheed Martin, GE, FACC and Spirit, besides establishing strong linkages. It has also formed JVs with Sikorsky, Lockheed Martin and Boeing.

On the domestic defence front, it serves directly to the Ministry of Defence (MoD) and its divisions - Defence Research and Development Organisation (DRDO) by participating through competitive bidding route. In the domestic market, it competes with homegrown rivals such as Bharat Electronics Ltd, Bharat Dynamics Ltd (rated 'CRISIL A1+'), Bharat Forge Ltd, Mahindra & Mahindra (rated 'CRISIL AAA/Stable/CRISIL A1+'), and Larsen & Toubro (rated 'CRISIL AAA/Stable/CRISIL A1+'), amongst others.

Pertinently, TASL is well positioned to benefit from the defence offset requirements applicable to global OEMs and Make in India initiatives of the Government of India that act as structural tailwinds for the sector.

Strong support from the holding company, Tata Sons

TASL is a strategically important entity for Tata Sons considering that it is the primary face of the Tata group in the aerospace and defence sectors. This is reflected in the group's decision to consolidate related businesses under it and infusion of Rs 630 crore of equity towards the consolidation exercise in fiscal 2022. While TASL may not require ongoing funding support given healthy accruals, CRISIL Ratings believes need-based support from Tata Sons in case of any exigency will be available.

Weaknesses:

High working capital requirement

In the domestic defence segment, the operations are working capital intensive since billing and collections are linked to milestone completion in long tenured defence contracts. This leads to a large build-up of inventories and receivables especially in case there is a delay in execution.

The gross current assets (GCAs) were over ~450 days in fiscal 2022, on account of large unbilled revenue. However, GCAs are expected to moderate going forward, led by liquidation of unbilled revenue through timely execution of the orders and strong revenue growth.

Further, the company enjoys better terms of trade in the global aerospace business in the form of healthy customer advances, milestone-based payment and nil retention money that leads to relatively better conversion of the working capital cycle.

Moderate financial risk profile

TASL's gearing and interest coverage ratio were 1.3 times and 3.5 times respectively in fiscal 2022 compared to 1.7 times and 3.4 times respectively in fiscal 2021. Gearing improved in fiscal 2022 because of the of equity infusion from the parent of Rs 630 crore this fiscal to repay the debt which was taken to fund the Weapons & Sensors Division acquisition. With improving profitability, the gearing and interest coverage ratio are expected to remain below 1.2 times and above 3.6 times, respectively, going forward.

Liquidity: Strong

Liquidity should remain healthy, driven by prudent working capital management and steady cash accrual. Liquidity is supported by cash and equivalent of over Rs 170 crore (including JVs) as on March 31, 2022. The company, including its JVs, is expected to generate net cash accrual of Rs 375-425 crore this fiscal, which should be adequate to cover debt maturities of over Rs 160 crore and part of the capital expenditure of over Rs 500 crore. The fund-based working capital limit was moderately utilized at an average of 75% through the 12 months ending March 2022.

Outlook: Stable

Business risk profile will remain strong driven by healthy order book and leading market position in defence & aerospace divisions.

Rating Sensitivity factors**Upward factors**

- Better-than-expected ramp-up in revenue and operating profitability, leading to return on capital employed (RoCE) of 12% on sustained basis over the medium term
- Material reduction in debt, improving the debt protection metrics

Downward factors

- Any downward revision in the rating of the parent or change in stance of support
- Deterioration of the financial risk profile with interest coverage ratio sustaining below 3 times

About the Company

TASL, incorporated in 2007 as a wholly owned subsidiary of Tata Sons, is the strategic aerospace and defence arm of the Tata group. TASL has capabilities in diverse areas, including aerospace and aero-structures, missile systems and sub-systems, radar systems and sub-systems, command, and control systems, unmanned aerial systems, optronic systems, and homeland security solutions.

Key Financial Indicators (TASL consolidated)

Particulars	Unit	FY 2022	FY 2021
Revenue	Rs crore	2982	1694
Profit after tax (PAT)	Rs crore	81	(82)
PAT margin	%	2.7%	NM
Total debt/adjusted networth	Times	1.8	2.5
Interest coverage	Times	2.2	1.6

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs crore)	Complexity levels	Rating outstanding with outlook
NA	Foreign Currency Term Loan	NA	NA	Mar-25	32.9	NA	CRISIL AA/Stable
NA	Foreign Currency Term Loan	NA	NA	Mar-25	25.0	NA	CRISIL AA/Stable
NA	Foreign Currency Term Loan	NA	NA	Mar-26	25.5	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	Mar-25	125.0	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	Mar-26	119.0	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	Mar-26	306.8	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	Mar-26	100.0	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	Mar-26	997.5	NA	CRISIL AA/Stable
NA	Non-Fund Based Limit	NA	NA	NA	3,929.3	NA	CRISIL A1+
NA	Fund-Based Facilities	NA	NA	NA	1,184.0	NA	CRISIL AA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1155	NA	CRISIL AA/Stable

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Nova Integrated Systems Ltd	Full	Similar business profile, and significant operational and financial linkages with parent, TASL.
Aurora Integrated Systems Pvt Ltd		
Tata Sikorsky Aerospace Ltd		
Tata Lockheed Martin Aerostructures Ltd		
Hela Systems Pvt Ltd		
Tata Boeing Aerospace Ltd		
LTH Milcom Pvt Ltd		

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	4070.7	CRISIL AA/Stable		--	07-05-21	CRISIL AA/Stable	27-11-20	CRISIL AA-/Watch Developing	12-12-19	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing
			--		--		--	31-08-20	CRISIL AA-/Watch Developing	17-09-19	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	--
			--		--		--	02-06-20	CRISIL AA-/Watch Developing	21-06-19	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	--
			--		--		--	04-03-20	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	26-03-19	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	--
			--		--		--		--	04-01-19	CRISIL A1+/Watch Developing / CRISIL AA-/Watch Developing	--
Non-Fund Based Facilities	ST	3929.3	CRISIL A1+		--	07-05-21	CRISIL A1+	27-11-20	CRISIL A1+/Watch Developing	12-12-19	CRISIL A1+/Watch Developing	CRISIL A1+/Watch Developing
			--		--		--	31-08-20	CRISIL A1+/Watch Developing	17-09-19	CRISIL A1+/Watch Developing	--
			--		--		--	02-06-20	CRISIL A1+/Watch Developing	21-06-19	CRISIL A1+/Watch Developing	--
			--		--		--	04-03-20	CRISIL A1+/Watch Developing	26-03-19	CRISIL A1+/Watch Developing	--
			--		--		--		--	04-01-19	CRISIL A1+/Watch Developing	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Foreign Currency Term Loan	32.9	Axis Bank Limited	CRISIL AA/Stable
Foreign Currency Term Loan	25.5	The Federal Bank Limited	CRISIL AA/Stable
Foreign Currency Term Loan	25	YES Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	50	ICICI Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	109	Technology Development Board	CRISIL AA/Stable
Fund-Based Facilities	35	Indian Bank	CRISIL AA/Stable
Fund-Based Facilities	210	The Federal Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	90	HDFC Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	120	Axis Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	125	State Bank of India	CRISIL AA/Stable
Fund-Based Facilities	215	IDFC FIRST Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	100	Deutsche Bank	CRISIL AA/Stable
Fund-Based Facilities	130	YES Bank Limited	CRISIL AA/Stable
Non-Fund Based Limit	5	IDFC FIRST Bank Limited	CRISIL A1+
Non-Fund Based Limit	1740	State Bank of India	CRISIL A1+
Non-Fund Based Limit	136.25	Axis Bank Limited	CRISIL A1+
Non-Fund Based Limit	477.9	ICICI Bank Limited	CRISIL A1+
Non-Fund Based Limit	330	IndusInd Bank Limited	CRISIL A1+
Non-Fund Based Limit	400	Indian Bank	CRISIL A1+
Non-Fund Based Limit	159	Deutsche Bank	CRISIL A1+
Non-Fund Based Limit	187.4	Exim Bank	CRISIL A1+
Non-Fund Based Limit	101.88	Kotak Mahindra Bank Limited	CRISIL A1+
Non-Fund Based Limit	220	IDFC FIRST Bank Limited	CRISIL A1+
Non-Fund Based Limit	10	State Bank of India	CRISIL A1+
Non-Fund Based Limit	13.75	Axis Bank Limited	CRISIL A1+
Non-Fund Based Limit	148.12	Kotak Mahindra Bank Limited	CRISIL A1+
Proposed Long Term Bank Loan Facility	1155	Not Applicable	CRISIL AA/Stable
Term Loan	85	Axis Bank Limited	CRISIL AA/Stable
Term Loan	942.5	ICICI Bank Limited	CRISIL AA/Stable
Term Loan	306.8	Kotak Mahindra Bank Limited	CRISIL AA/Stable
Term Loan	100	Deutsche Bank	CRISIL AA/Stable
Term Loan	40	Axis Bank Limited	CRISIL AA/Stable
Term Loan	119	HDFC Bank Limited	CRISIL AA/Stable
Term Loan	55	ICICI Bank Limited	CRISIL AA/Stable

This Annexure has been updated on 07-Jul-2022 in line with the lender-wise facility details as on 07-Jul-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation
Understanding CRISILs Ratings and Rating Scales

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