

Aditya Infotech Limited

April 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	156.00 (Reduced from 164.31)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	355.00 (Enhanced from 270.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Aditya Infotech Limited (AIL) continues to take into consideration company's established brand 'CP Plus' in the surveillance equipment distribution business, its country-wide distribution network across India, long standing relationship with reputed suppliers and wide customer base. The ratings further factor in the experienced promoters, improvement in operational performance in FY23 (refers to the period from April 01 to March 31) and 9MFY24 (UA) (refers to the period from April 01 to December 31) driven by uptick in demand of surveillance equipment and AIL's comfortable financial risk profile marked by healthy debt coverage indicators. However, these strengths are partially offset by working capital intensive nature of operations, competition in the industry thereby leading to modest operating margins, supplier concentration risk and foreign exchange fluctuation risk.

We have noted that AIL has repaid the term loan facility by YES Bank Limited in full and there is no outstanding under the said facility as on date. Taking cognizance of this, we hereby withdraw our rating for AIL's aforementioned facility, with immediate effect.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Sustained improvement in revenue with maintenance of profitability margins over 8% and geographical and product diversification.
- Improvement in capital structure with overall gearing of 0.50x.

Negative factors

- Any decline in scale of operations with ROCE below 15% on sustained basis.
- Stretch in the operating cycle days beyond 120 days leading to pressure on its liquidity position.
- Deterioration in debt coverage indicators with Net debt/PBILDT going beyond 1.5x.
- Any change in its relationship with supplier (Dahua) posing risk for AIL to maintain its market share in India.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall sustain its strong financial risk profile over the medium term. CARE also believes that improvement in cash accruals of the company over medium term shall further support its liquidity profile.

Detailed description of the key rating drivers:

Key strengths

Established brand in the surveillance equipment distribution business

AIL enjoys strong market position in India within electronic security segment (video surveillance), with majority of turnover being contributed by its indigenous brand, 'CP Plus', which is a leading and flagship security and surveillance brand. The company is also engaged in distribution of products of Dahua Technology (under brand name 'Dahua') which is one of the leading global players in 'advanced video surveillance solutions' with operations in over 180 countries. AIL has a long-standing relationship of 14 years with Dahua Technology for which it acts as the exclusive distributor in India. The product profile is though concentrated

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

towards cameras and Digital Video Recorders (DVRs), which contributed ~90% to revenue in FY23 and ~88% in 9MFY24 but with its strong brand recall AIL is expected to maintain its significant market share in India in the surveillance equipment industry. The company has been making efforts to add product portfolio comprising surveillance software, video door phone, time & attendance recording device, digital door lock, etc but the camera and DVR remain the key products.

Country-wide distribution network in India

The company has a deep penetration in India with more than 7000 channel partners in about 600 towns across India and a network of local service and support at 52 locations, pan India. The distributors are spread across various states including Maharashtra, UP, Delhi, Punjab, Haryana, West Bengal, Chhattisgarh, Orissa, Gujarat, Rajasthan, Kerala, Tamil Nadu, Karnataka, etc.

Long standing relation with supplier albeit supplier concentration risk

AIL has a long-standing relation with principal supplier Dahua Technology Limited for which it acts as the exclusive distributor in India. AIL had also entered into 50:50 Joint venture (JV) with Dixon Technologies (India) Limited (CARE A1+) in May'17 for captive manufacturing of security systems including CCTVs & DVRs under 'CP Plus' brand name. The JV, named as AIL Dixon Technologies Private Limited, commenced manufacturing of CCTVs and DVRs in Jan'18. AIL essentially purchases the products manufactured by the JV and then sells it to its customers. The components required for manufacturing of these products are majorly purchased by AIL Dixon from Dahua Technology. Also, income which comes from trading activity to AIL as the exclusive distributor of Dahua's products in India forms around 30%- 40% of AIL's total operating income. Hence, AIL faces supplier concentration risk as more than 80% of supplies come from Dahua Technology (for manufacturing as well as trading activities), though the risk is partially mitigated by longstanding relationship of 14+ years between the two companies. Further, the company had substantial amount of creditors to the tune of Rs.910.48 crore as on March 31, 2023.

Experienced management

AIL's promoters have been engaged in the business of computer software, IT hardware, and security products such as surveillance cameras and scanners for around 26 years, which has led to deep understanding of industry dynamics and technical know-how. The day-to-day business functions at AIL are spearheaded by Mr. Aditya Khemka, Managing Director, who has over twenty years of experience in the Indian Security and Surveillance industry. Mr. Aditya Khemka possesses technical competence and IT educational background. He is ably assisted by a qualified and professional management team with vast experience in the industry.

Improvement in operating performance in FY23 and 9MFY24

The total operating income of the company reported y-o-y growth of ~40% and stood at Rs.2,284.55 crore in FY23 (PY: Rs.1,633.50 crore). The same is owing to the strengthening of overall electronic equipment industry with increased demand for usage in educational institutions, homes, shops, etc. Further, the company has ~50% market share in the industry which also helps in growing the business. From the core CCTV business, the company is beating the industry growth rates and gaining market share vis-à-vis its competitors. The PBILDT margin of the company, however, moderated by 165 bps and stood at 7.06% in FY23 (PY: 8.24%). The operating margins of the company remain volatile and keep fluctuating between 7 to 8% because of competition in electronic surveillance products industry, the higher marketing expenses & forex fluctuations. The same led to moderation in the PAT margin to 4.47% in FY23 (PY: 5.12%).

9MFY24 (UA) (refers to period from April 01 to December 31): In the current year, the company has reported further growth of ~21% in the total operating income, which stood at Rs.2,067.76 crore in 9MFY24 (9MFY23: Rs.1,672.36 crore). Further, the PBILDT margin also improved by 165 bps and stood at 7.72% in 9MFY24 (PY: 6.07%) and the PAT margin also improved and stood at 4.86% in 9MFY24 (PY: 3.83%).

Comfortable financial risk profile

The total debt of the company stood at Rs.447.18 crore as on March 31, 2023 and the same was primarily owing to increase in short-term borrowings to Rs.325.59 crore (PY: Rs.123 crore). However, as against the disbursement of short-term borrowings, the bank issued fixed deposits to the tune of Rs.240.75 crore as on March 31, 2023. The increase in cash and bank balance (fixed deposits) has been offset against the increase in working capital borrowings by calculating net debt. Therefore, the adjusted overall gearing stood at 0.71x as on March 31, 2023. The interest coverage and total debt to GCA stood at 7.05x and 4.02x as on March 31, 2023 respectively (PY: 6.95x and 3.14x respectively).

Key weaknesses

Competition in electronic surveillance products industry

Electronic surveillance equipment industry in India is fairly competitive with top 3 brands, viz., CPPlus, Dahua, and Hikvision commanding ~70-75% market share while other brands like Zicom, Panasonic, Bosch, etc. make the remaining 25%. The lack of differentiation in the product offerings made the vendors adopt competitive pricing strategies. Hence, to tackle the competitiveness of the market, AIL has historically invested in building the brand CPPlus and its wide distribution network.

Working Capital Intensive nature of operations

The company's distribution business is highly working-capital-intensive. The company allows 2.5 – 3-month credit period to its customers due to competitive nature of the industry and avails a 120-days credit period from Dahua. Due to the same, the company has high dependence on working capital borrowings. However, the bargaining power of AIL vis-à-vis Dahua stems from the strategic importance it holds for the latter as its exclusive distributor and procurer of its components.

Foreign exchange fluctuation risk

Though AIL's sales are almost entirely domestic, it's JV imports 85% of its requirement for CCTV cameras and other materials in unassembled form from China, thus, exposing it to forex risk indirectly. However, the company enters hedging contracts, largely covering currency fluctuation risks. Additionally, AIL follows the policy of considering extra buffer in the 'product costing' in order

to hedge any risk of unanticipated adverse movement in forex rates. AIL also remains exposed to geopolitical risks on account of higher indirect dependence on China since the AIL-Dixon JV imports ~80-85% of its supplies from China. While the risk remains, the overall high dependence of the industry on Chinese supplies and the fact that there have been no major supply disruptions provide comfort. The company had reported loss of Rs.0.07 crore (PY: loss of Rs.0.08 crore) due to foreign currency fluctuation in FY23.

Industry Prospects

Government and private entities across the globe are investing in tackling the rising rate of crimes. The electronic security market was valued at ~USD 45 billion in 2022 and is expected to reach USD 68.57 billion by 2026, at a CAGR (Compounded annual growth rate) of ~9% over the forecast period from 2023 to 2026. Revenue-wise, Indian electronic surveillance equipment is ~Rs 4000 - 5000 crore in size and has been growing at mid-teens for the last 3-4 years. 75% of Indian market is dominated by three brands – Hikvision, CP Plus, and Dahua – out of which two are with AIL (one as its own brand and the other as an exclusive distributor). Macro-developments like 'Make in India' and implementation of GST has facilitated the consolidation of the industry in last 4-5 years and has helped organized sector entities like AIL.

Liquidity: Adequate

The liquidity position of the company remains adequate as reflected by scheduled debt repayments to the tune of Rs.13.84 crore in FY23 against projected gross cash accruals of Rs.173.21 crore in FY23. Further, average utilization of month-end outstanding balance of fund-based limits stood ~82% for the trailing 12 months ended February, 2024. The company had free cash and bank balance to the tune of Rs.296.14 crore as on March 31, 2023. The company is not envisaged to incur any major capex in the near to medium future.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

Aditya Infotech Limited (AIL), incorporated in 1995, is engaged in providing technology-enabled security and safety solutions with specialization in electronic video surveillance. AIL's indigenous brand, "CP Plus" is one of the leading brands in video security in India with a healthy market share. Its offerings include intelligent video surveillance, analog HD camera, home security, access control & access management solutions, and other accessories. The company is spearheaded by Mr. Aditya Khemka, founder and CEO who holds 59.62% stake in the company, along with his father, Mr Hari Shankar Khemka (19.24%) and his brother Mr Rishi Khemka (19.00%). With 29 offices, 51 service centres, and 700+ employees, the company has 7000+ partners across 600+ towns of India. AIL had entered into JV with Dixon Technologies (India) Limited in May'17 for manufacturing of security systems including CCTVs & DVRs under 'CP Plus' brand name. The JV, named as AIL Dixon Technologies Private Limited, commenced manufacturing of CCTVs and DVRs in Jan'18. AIL essentially purchases the products manufactured by the JV and then sells it to its customers. AIL has a long-standing relation with principal supplier Dahua Technology Limited for which it acts as the super distributor for India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,633.50	2,284.55	2067.76
PBILDT	134.53	161.25	159.65
PAT	83.64	102.13	100.57
Overall gearing (times)	1.08	1.55	1.18
Interest coverage (times)	6.95	7.05	6.90

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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-Term Loan		-	-	October, 2023	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	February, 2028	36.00	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	120.00	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	100.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	80.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	100.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	75.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	75.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (05-Apr-23)	-	1)CARE A-; Stable / CARE A2+ (23-Mar-22)	-
2	Fund-based - LT-Working Capital Demand loan	LT	120.00	CARE A-; Stable	1)CARE A-; Stable (05-Apr-23)	-	1)CARE A-; Stable (23-Mar-22)	-
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	100.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (05-Apr-23)	-	1)CARE A-; Stable / CARE A2+ (23-Mar-22)	-
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	80.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (05-Apr-23)	-	1)CARE A-; Stable / CARE A2+ (23-Mar-22)	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	100.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (05-Apr-23)	-	1)CARE A-; Stable (23-Mar-22)	-
6	Fund-based - LT-Term Loan	LT	-	-	1)CARE A-; Stable (05-Apr-23)	-	1)CARE A-; Stable (23-Mar-22)	-
7	Fund-based - LT-Term Loan	LT	36.00	CARE A-; Stable	1)CARE A-; Stable (05-Apr-23)	-	1)CARE A-; Stable (23-Mar-22)	-

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

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Demand loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the 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

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Sajan Goyal Director CARE Ratings Limited Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in</p> <p>Sachin Mathur Associate Director CARE Ratings Limited Phone: 91-120-4452054 E-mail: sachin.mathur@careedge.in</p> <p>Akanksha Dutta Lead Analyst CARE Ratings Limited E-mail: Akanksha.dutta@careedge.in</p>
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About us:

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