Press Release

Param Enterprises Pvt. Ltd.

Dec 10, 2024

Ratings

S. No	Instrument /Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	30.88	IVR A-/Stable (IVR Single A Minus with Stable Outlook)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Upgraded	Simple
2.	Long/Short Term Bank Facilities	150.00	IVR A-/Stable/IVR A2+ (IVR Single A Minus with Stable Outlook/IVR A Two Plus)	IVR BBB+/Stable/IVR A2 (IVR Triple B Plus with Stable Outlook/IVR A Two)	Upgraded	Simple
	Total	**180.88**	**Rupees One Hundred Eighty Crore and Eighty-Eight Lakh Only**			

Details of Facilities are in Annexure 1. Facilities wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded long-term rating to IVR A- with a Stable outlook and short-term rating to IVR A2+ for the bank loan facilities of Param Enterprises Private Limited (PEPL).

The rating upgradation of PEPL considers improvement in the scale of operations besides healthy order book reflecting medium-term revenue visibility. The rating further continues to factor in experienced promoters with long track record, long relationship with Indian railways and its suppliers, comfortable financial risk profile on account of prudent capital structure, debt protection metrics and current ratio. However, these strengths are partially offset by working capital intensive nature of operations, client concentration risk, competitive nature of the construction sector.

The Stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that PEPL's business & financials risk profile will be maintained over the medium term on the back of PEPL's established track record of operations, healthy order book position which provides revenue visibility in medium term.

IVR has principally relied on the standalone audited financial results of PEPL up to up to 31 March 2024 (refers to 1 April 2023 to 31 March 2024), & projected financials from FY25 to FY27 (refers to 1 April 2024 to 31 March 2027), and publicly available information/clarifications provided by the company's management.

Key Rating Sensitivities:
Upward Factors

- Significant improvement in the scale of operations with continuous inflow of orders and improvement in profitability leading to improvement in cash accruals on a sustained basis.
- Sustenance of capital structure & debt protection metrics while improvement in the operating cycle.

Downward Factors

- Significant moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.
- Moderation in the capital structure with overall gearing moderating to more than 1x, besides elongation in operating cycle leading to deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Strengths

Experienced promoters with long track record:
PEPL is engaged in carrying out Railway Signalling& Telecommunication projects exclusively for Indian Railways on turnkey basis. Company is managed by Mr. Puneet Pathak, gained experience in the turnkey projects of Signalling& Telecommunication while being one of the partners initially with Kalindee, Jaipur for 7 years from 1979 to 1986 which got merged with Texmaco (Birla group). PEPL was incorporated in 1986 as partnership firm (PARAM) and then converted into a Private Limited Company in 1989. Thus, the CMD of PEPL, Mr. Puneet Pathak, has experience of four decades. He is assisted by his sons Mr. Param Pathak & Mr. Parag Pathak along with a dedicated, experienced, technically qualified team having in-depth experience in the field of Signalling& Telecommunication (S&T).

Long relationship with Indian railways and its suppliers:
PEPL installs signalling and telecommunication equipment for the Indian Railways on a turnkey basis and has a strong foothold in Indian Railways. While bidding for projects, it ties up with a technology partner for the supply of equipment. The company also has tie-ups with its key suppliers such as Siemens Limited for state interlocking signal systems.

Healthy order book reflecting medium-term revenue visibility.

The company has a total unexecuted order book (including consortium/JVs) of ~Rs 1315.23 crore as on 04.10.2024, i.e. ~3x times of its FY24 total operating revenue (i.e. Rs 440 crore) where its own order book (excluding JVs/consortium) is Rs 388.46 crore, indicating a near to medium term revenue visibility. The orders are expected to be completed within next one to two years. Order including order from consortium/JVs projects (having share of more than 51%) amounting to Rs 926.77 crore. The major raw materials used in signalling and telecommunication activities are iron and steel, cables, lights, sensors etc and the same are volatile in nature and may impact profitability. The majority of the contracts have price escalation clause insulating the company from any adverse raw material price increase.

Comfortable financial risk profile and comfortable capital structure

The financial risk profile of the company continued to remain strong in FY24 on the back of comfortable capital structure, healthy profitability leading to healthy cash accruals and comfortable debt protection metrics. The capital structure of the company has remained comfortable over the years. The long-term debt equity ratio and the overall gearing (total debt/tangible networth) ratio are comfortable at 0.05x and 0.48x respectively in FY24 against 0.08x and 0.42x respectively in FY23. Total indebtedness of the company is marked by total outstanding liabilities/ tangible networth at 0.69x as in FY24 against 0.72x in FY23.Total operating income (TOI) of the company improved from Rs. 203.31 crore in FY23 to Rs. 440.00 crore in FY24 on the back of timely execution of orders. The company registered revenue of Rs. 220.60 crore in H1FY25. With the increase in revenue in FY24, absolute EBITDA also increased from Rs.34.03 crore in FY23 to Rs.58.85 crore in FY24. EBITDA margins are healthy though declined from 16.74% in FY23 to 13.38% in FY24 on account of increase in raw material consumption/price beside the company has gradually shifted its business model from BOQ (Bill of Quantities) contracts to EPC contracts which effected margins in short term. The PAT margin has also moved in line with EBITDA margin and declined to 8.56% in FY24 against 10.35% in FY23.The debt protection metrics of the company is comfortable and further improved in FY24, interest service coverage ratio (ISCR) improved to 3.91x against 3.36x in FY23 and debt service coverage ratio is at 3.34x in F24 against 2.85x in FY23. Total debt/EBITDA is also comfortable at 1.61x in FY24 against 1.88x in FY23. Current ratio is comfortable at 1.74x in FY24.

Key Rating Weaknesses

Working capital intensive

The operations of company are working capital intensive due to tender based and medium-term nature of contracts. PEPL needs to furnish earnest money deposits (EMD) during the bidding process which leads to funds getting blocked even before the project is awarded. A part of the sales proceeds is also withheld in the form of retention money. However, operating cycle of the company improved from 139 days in FY23 to 82 days in FY24 mainly due to the improvement in the collection period from 196 days in FY23 to 72 days. The company has transitioned gradually from the BOQ model to the EPC model in FY24 leading to a change in operating cycle. The risk of receivables mitigates to great extent since the principal clientele being Indian Railways & IRCON has low counterparty risk attached with receipt of dues from its customers.

Highly fragmented & competitive nature of the construction sector with significant price war

PEPL receives most of its work orders from Indian Railways. All these are tender-based, and the revenues are dependent on the PEPL's ability to bid successfully for these tenders. There are several organized players operating in the segment due to which there is competition. However, the promoters' long industry experience in bagging and executing railway signalling contracts for Indian Railways mitigates this risk to an extent

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector).
- Criteria for assigning Rating outlook.
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

PEPL's liquidity profile continues to remain adequate in the near to medium term driven by its gross cash accruals (GCA) of Rs 38.07 against fixed term obligations of Rs ~0.44 crore in FY24 and expected sufficient gross cash accruals vis-a-vis minimal debt repayments during FY25-FY27. The company's debt servicing obligation majorly comprises of interest on working capital borrowings whereas EBITDA is more than 3.5 times to take care of interest obligations. The average working capital utilization in the last 12 months ended Sep 2024, was low at ~ 32% provides cushion in case of requirement to execute additional orders. The overall gearing remained comfortable at 0.48x as on March 31, 2024 demonstrates sufficient headroom to take additional debt in case of requirement. The unencumbered cash and bank balance stood at Rs. 4.45 crore as on September 30, 2024.

About the Company

Incorporated in 1986 as a partnership firm and later getting converted into a private limited company in 1989, PEPL is engaged in carrying out Railway Signalling & Telecommunication projects exclusively for Indian Railways on turnkey basis under the leadership of CMD, Mr. Puneet Pathak. PEPL participates in signalling & telecommunication tenders floated by the Indian Railways and takes contracts of supply, installation, testing & commissioning of modernization of signalling & telecommunication system including automatic signalling and route relay interlocking system. The company has a long relationship with the railways. The company has headquartered in Kolkata and it operates in various states like West Bengal, Orissa, Jharkhand, Madhya Pradesh, Bihar, Uttar Pradesh, etc. The company has, in place, ISO 9001:2015 accreditations.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	203.31	440.00
EBITDA	34.03	58.85
PAT	21.26	37.83
Total Debt	63.89	94.83
Tangible Net worth	153.01	198.39
EBITDA Margin (%)	16.74	13.38
PAT Margin (%)	10.35	8.56
Overall Gearing Ratio (x)	0.42	0.48
ISCR (x)	3.36	3.91

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA : NA

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Instrument /Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Current Rating	Date(s) & Rating(s) assigned in 2023-24 (29 Mar,2024)	Date(s) & Rating(s) assigned in 2022-23 (07 Feb,2023)	Date(s) & Rating(s) assigned in 2021-22 8 Nov, 2021
1.	Long Term Bank Facilities	Long Term	25.00	IVR A-/ Stable	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR A-/ Stable
2.	Long/Short Term Bank Facilities	Long Term/Short Term	150.00	IVR A-/ Stable/ IVR A2+	IVR BBB+/Stable/ IVR A2	IVR BBB+/Stable/ IVR A2	IVR A/Stable/ IVR A2+

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt

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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.
Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – GECL	-	-	-	Till Dec,2026 Till Dec,2027	4.38 1.50	IVR A-/ Stable
Long Term Bank Facilities – Cash Credit	-	-	-	-	25.00	IVR A-/ Stable
Long Term/Short Term Bank Facilities – Bank Guarantee	-	-	-	-	150.00	IVR A-/ Stable/ IVR A2+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Param-Enterprises-dec24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: NA

Annexure 4: List of companies considered for combined analysis: NA

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