Press Release

Param Enterprises Pvt. Ltd.

March 29, 2024

Ratings

S. No	Instrument /Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action
1.	Long Term Bank Facilities	25.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed
2.	Long/Short Term Bank Facilities	150.00	IVR BBB+ (Stable)/IVR A2 (IVR Triple B Plus with Stable Outlook/IVR A Two)	IVR BBB+ (Stable)/IVR A2 (IVR Triple B Plus with Stable Outlook/IVR A Two)	Reaffirmed
	Total	**175.00**	**Rupees One Hundred and Seventy Five Crores Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

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

The rating reaffirmation of PEPL continues to factor experienced promoters with long track record, long relationship with Indian railways and its suppliers, strong order book reflecting medium-term revenue visibility, strong financial risk profile and comfortable capital structure. 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, good order book position which provides revenue visibility in medium term.

IVR has principally relied on the standalone audited financial results of PEPL up to FY23, three years projected financials till FY26, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

- More than expected 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 moderated to more than 1x.
- 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 at an early age 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 vast experience of four decades and good rapport with the Government Railway Officials. He is well 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 supply of equipment. The company also has tie-ups with its key suppliers such as Siemens Limited for state interlocking signal systems.

Strong order book reflecting medium-term revenue visibility.
The company has an unexecuted order book of ~Rs.604.92 crores, i.e. ~3 times of its FY23 total operating revenue indicating a near to medium term revenue visibility. The orders are expected to be completed within next one to two years. In addition to that, the company also has consortium/JVs projects amounting to Rs 693.55 Crore out of which unexecuted part stands at Rs. 580.95 Crore. Currently the company registered revenue of ~Rs 421 Crs till 22 March,2024. 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. However, majority of the contracts have price escalation clause insulating the company from any adverse raw material price increase.

Strong financial risk profile and comfortable capital structure

The financial risk profile of the company continued to remain strong in FY23 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 ratio were comfortable at 0.08x and 0.42x respectively in FY23 against 0.10x and 0.48x respectively in FY22. Total indebtedness of the company is marked by TOL / TNW at 0.72x as in FY23 against 1.02x in FY22. With the increase in revenue, absolute EBITDA also increased from Rs.25.15 crore in FY22 to Rs.34.03 crore in FY23. EBITDA margin also improved from 15.50% in FY22 to 16.74% in FY23 on the back of selective contract bidding and consequent execution of relatively high margin contracts. The PAT margin has also moved in line with EBITDA margin and improved marginally to 10.35% in FY23 against 10.27% in FY22.The debt protection metrics of the company is comfortable and further improved in FY23, interest service coverage ratio (ISCR) improved to 3.36x against 2.97x in FY22 and debt service coverage ratio is at 3.36x in F23 against 3.03x in FY22. Total debt/EBITDA is also comfortable at 1.88x in FY23 against 2.44x in FY22.

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. The operating cycle of the company elongated from 109 days in FY22 to 139 days in FY23 mainly due to the decrease in payable period from 138 days in FY22 to 86 days. However, the debtor period has improved from 229 days in FY22 to 196 days in FY23 while inventory period remains low at 29 days in FY23 (PY: 18 days). The risk of receivables mitigates to great extent since the principal clientele being Indian Railways, PEPL has low default risk attached with receipt of dues from its customers.

C**lient concentration risk**

PEPL receives most of its work orders from Indian Railways, which indicates client concentration risk. The company's performance is totally based on the orders from Railway, and any policy change will have serious effect on the performance of the company. However, seeing the current trend in the operations, this is unlikely to happen in short term.

Competitive nature of the construction sector

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: For arriving at the ratings, IVR has analyzed PEPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Criteria for assigning rating outlook
- Default Recognition Criteria

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 21.54 against fixed term obligations of Rs ~1 crore in FY23 and expected sufficient gross cash accruals vis-a-vis minimal debt repayments during FY24-FY26. The company's debt servicing obligation majorly comprises of interest on working capital borrowings whereas EBITDA is more than 3 times to take care of interest obligations. The average working capital utilization in the last 12 months ended Jan 2024, is ~ 60% provides cushion in case of requirement to execute additional orders. The overall gearing remained comfortable at 0.42x as on March 31,2023 demonstrates sufficient headroom to take additional debt in case of requirement.

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, in place, ISO 9001:2015 accreditations. Having headquartered in Kolkata, PEPL is operating in various states like West Bengal, Orissa, Jharkhand, Madhya Pradesh, Bihar, Uttar Pradesh, etc.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	162.26	203.31
EBITDA	25.15	34.03
PAT	17.12	21.26
Total Debt	61.25	63.89
Tangible Net worth	127.73	153.01

EBITDA Margin (%)	15.50	16.74
PAT Margin (%)	10.27	10.35
Overall Gearing Ratio (x)	0.48	0.42

Financials 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 2023-24)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Current Rating**	**Date(s) & Rating(s) assigned in 2022-23** (07 Feb,2023)	**Date(s) & Rating(s) assigned in 2021-22** 8 Nov, 2021	**Date(s) & Rating(s) assigned in 2020-21** 20 Aug, 2020)
1.	Long Term Bank Facilities	Long Term	25.00	IVR BBB+ (Stable)	IVR BBB+ (Stable)	IVR A- (Stable)	IVR A- (Stable)
2.	Long/Short Term Bank Facilities	Long Term/Short Term	150.00	IVR BBB+ (Stable) /IVR A2	IVR BBB+ (Stable) /IVR A2	IVR A- (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 instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.
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	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	25.00	IVR BBB+ (Stable)
Long Term/Short Term Bank Facilities – Bank Guarantee	-	-	-	150.00	IVR BBB+(Stable) / IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-ParamEnterprises-mar24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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