Param Enterprises Pvt Ltd
February 07, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	25.00	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Simple
Long Term/ Short Term Bank Facilities	150.00	IVR BBB+; Stable/ IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Revised from IVR A-; Stable/ IVR A2+(IVR Single A Minus with Stable Outlook/ IVRA Two Plus)	Simple
Total	**175.00 (Rupees One hundred seventy-five crores only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Param Enterprises Private Limited (PEPL) is primarily due to continuous moderation in its scale of operation in the past two fiscals ended in FY22, stretch in its operating cycle and significant deviation between its projected performance for FY22 with actual performance for FY22 (A). However, the ratings continue to derive comfort from its experienced promoters with proven project execution capability, strong relationship with Indian railways (IR) & Siemens Ltd. Moreover, the ratings also continue to derive comfort from strong financial risk profile of the company marked by its healthy profitability, conservative capital structure and strong debt protection metrics and its strong order book position (with escalation clause attached to most of its contracts) indicating satisfactory near to medium-term revenue visibility. Further, these rating strengths are partially offset by working capital-intensive nature of its operations, exposure to client concentration risk and exposure to intense competition.

Key Rating Sensitivities:

Upward factors

- Significant 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

- Improvement in liquidity with improvement in the 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 Rating Strengths

- **Experienced promoter with long track record of operation**

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, gained experience in the turnkey projects of Signalling & Telecommunication at an early age while being one of the partner 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).

- **Sound engineering acumen & proven project execution capability**

The company has acquired strong engineering acumen through its successful operations over the years, especially in signaling and telecommunication and has completed many complex projects. The repeat orders received from its clientele validate its technical skills and execution capabilities.

- **Strong relationship with Indian railways and its suppliers**

PEPL installs signaling 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 has tie-ups with its key suppliers: Seimens Limited for solid state interlocking signal systems. Though the company has signed MoU’s, the tie-ups are a result of longstanding associations.

- **Strong order book reflecting satisfactory medium-term revenue visibility**

As on September 30, 2022, the company has an unexecuted order book of ~Rs.736.44 crore, i.e. ~4.54 times of its FY22 total operating revenue (i.e. Rs 162.26 Crore) indicating a satisfactory near to medium term revenue. The order book is diversified majorly between eastern railway and eastern central railway. The orders are expected to be completed within next two years, indicating a satisfactory near to medium-term revenue visibility.

- **Escalation clause attached to most of the contracts**

The raw material & labour cost forms the major chunk of the total cost of sales. The same are volatile in nature and impact profitability. However, PEPL mitigates this risk by way of cost escalation clause in majority of contracts as all are medium tenure contracts (ranging from 1.5-2 years). In the order book as on July 31, 2021, all contracts have escalation clause to protect margins.

- **Strong financial risk profile marked by healthy profitability, conservative capital structure and strong debt protection metrics**

The financial risk profile of the company continued to remain strong in FY22 despite moderation marked by its conservative capital structure, healthy profitability leading to healthy cash accruals and sound debt protection metrics. The capital structure of the company continues to remain comfortable throughout the past three account closing dates. The long-term debt equity ratio and the overall gearing ratio were comfortable at 0.10x and 0.48x respectively as on March 31, 2022 (0.04x and 0.42x respectively as on March 31, 2021). Total indebtedness of the company marked by TOL/TNW remained healthy at 1.02x as on March 31,2022 (0.99x as on March 31, 2021). The debt protection metrics marked by the interest coverage ratio and Total debt to EBITDA was comfortable at 2.97x (3.94x in FY21) and 2.44x (1.52x in FY21) respectively in FY22.

Key Rating Weaknesses

- **Moderation in financial performance in FY22**

PEPL's total operating income (TOI) witnessed a moderation by ~21% from Rs.209.66 crore in FY21 to Rs.162.26 crore in FY22 largely due to lesser number of contracts bided in FY22 as compared to FY21 due to lower contracts floated by the IR and less profit opportunities. Further, the company has also bided on selective basis due to elongation in collection period from the Indian Railways. This apart, due to pandemic situation, there was slowdown in the supply and execution of contracts during the last quarter of the financial year 2021 and in Q1FY22 leading to decline in overall TOI in FY22 as compared to FY21. Furthermore, IR has also changed its tender floating policy which also impacted the flow of order. With moderation in revenue, absolute EBITDA also moderated from Rs.29.38 crore in FY21 to Rs.25.15 crore in FY22. However, notwithstanding the moderation in topline and absolute EBITDA, the EBITDA margin improved from 14.01% in FY21 to 15.50% in FY22 on the back of selective contract bidding and consequent execution of relatively high margin contracts. The PAT margin is also moved in line with EBITDA margin and improved to 10.27% in FY22 from 9.16% in FY21. In 9MFY23, the company has achieved topline of about ~Rs.140 crore.

- **High working capital intensity**

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 in FY22 mainly due to delayed payments by the IR, its principal clientele mainly in the last month of FY22. However, the principal clientele being Indian Railways, PEPL has low default risk attached with receipt of dues from its customers. The average working capital utilization in the last 12 months ended September 2022, was moderate at about ~ 82%.

- **Client 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 at IR 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.

- **Highly fragmented & 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 some extent.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Criteria of assigning rating outlook]

Liquidity: Adequate

PEPL's liquidity profile appears to be adequate in the near to medium term driven by its expected sufficient cash accruals vis-a-vis insignificant debt repayments obligation during FY23-FY25. The company's debt servicing obligation majorly comprises of interest on working capital borrowings which is minimal as compared to its cash accruals. However, the operations of the company are working capital intensive marked by its elongated operating cycle. The average working capital limit utilisation remained moderate at ~82% for the twelve months ended September, 2022 indicating a moderate liquidity buffer. Nevertheless, the overall gearing remained comfortable at 0.48x as on March 31, 2022 indicating adequate gearing headroom.

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 of Param Enterprises Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	209.66	162.26
EBITDA	29.38	25.15
PAT	19.39	17.12
Total Debt	44.67	61.25
Tangible Net worth	105.66	127.73
EBITDA Margin (%)	14.01	15.50

PAT Margin (%)	9.16	10.27
Overall Gearing Ratio (x)	0.42	0.48
Interest Coverage Ratio (x)	3.94	2.97

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	25.00	IVR BBB+; Stable Outlook	IVR A-;Stable Outlook (Nov 8, 2021)	IVR A-;Stable Outlook (August 20, 2021)	IVR A-;Stable Outlook (May 21, 2019)
2.	Bank Guarantee	Long Term/ Short Term	150.00*	IVR BBB+; Stable Outlook/IVR A2	IVR A-;Stable outlook/IVR A2+ (Nov 8, 2021)	IVR A-;Stable outlook/IVR A2+ (August 20, 2021)	IVR A-;Stable outlook/IVR A2+ (May 21, 2019)

Proposed Long Term/ Short Term Bank Facilities of Rs.80 crore has been sanctioned

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Press Release

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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 Outlook
Long Term/Short Term Bank Facilities – Bank Guarantee	-	-	-	150.00	IVR BBB+; Stable outlook/ IVR A2

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Param-Enterprises-feb23.pdf
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Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.