Press Release

Param Enterprises Private Limited

November 08, 2021

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities – Cash Credit	25.00	IVR A-; Stable Outlook (IVR Single A minus with Stable Outlook)	Reaffirmed
Long Term/Short Term Bank Facilities – Bank Guarantee	70.00	IVR A-; Stable/IVR A2+ (IVR Single A Minus with Stable Outlook/IVR A Two plus)	Reaffirmed
Proposed Long Term/Short Term Bank Facilities – Bank Guarantee	80.00	IVR A-; Stable/IVR A2+ (IVR Single A Minus with Stable Outlook/IVR A Two plus)	Reaffirmed
Total	**175.00**		

Details of Facilities are in Annexure 1.

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Param Enterprises Private Limited (PEPL) continue to derive comfort from its experienced promoters with proven project execution capability, strong relationship with Indian railways and its key supplier: Siemens Ltd. and its strong order book position (with escalation clause attached to most of its contracts) indicating satisfactory near to medium-term revenue visibility. Further, the ratings also continue to factor PEPL's strong financial risk profile marked by its strong liquidity, healthy profitability, conservative capital structure and strong debt protection metrics. However, these rating strengths continues to remain are partially offset by working capital-intensive nature of its operations, exposure to client concentration risk and intense competition. The ratings also note moderation in its financial performance in FY21 mainly due to impact of Covid 19 pandemic.

Key Rating Sensitivities:

Upward Factor:

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**

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 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).

- **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 July 31, 2021, the company has an unexecuted order book of ~Rs.549.70 crores, i.e. ~2.62 times of its FY21 total operating revenue (i.e. Rs 209.66 Crore) indicating a satisfactory near to medium term revenue. The order book is diversified majorly between Eastern Railway and East 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 FY21 marked by its conservative capital structure, healthy profitability leading to healthy cash accruals and sound debt protection metrics. The long-term debt equity ratio and the overall gearing ratio were comfortable at 0.02x and 0.46x respectively as on March 31, 2020 and at 0.04x and 0.42x respectively as on March 31, 2021. Total debt / Adjusted Net worth was comfortable at 0.96x as on March 31, 2021. The debt protection metrics marked by the interest coverage ratio and Long-term debt to GCA though moderated marginally also continued to remain comfortable at 3.94x (5.11x in FY20) and 2.26x (1.74x in FY20) respectively in FY21. The debt protection metrics marked by the interest coverage ratio and Long-term debt to GCA was comfortable at 3.94x (5.11x in FY20) and 2.26x (1.74x in FY20) respectively in FY21.

Key Rating Weaknesses

- **Moderation in financial performance in FY21**

PEPL's total operating income (TOI) witnessed a moderation by ~9% from Rs.231.22 crore largely due to lesser number of contracts bided in FY21 as compared to FY20 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 first quarter of the financial year 2021 leading to decline in overall TOI in FY21 as compared to FY20. Notwithstanding the decline in topline, the EBITDA margin improved from 13.33% in FY20 to 14.01% in FY21 on the back of selective contract bidding and consequent execution of relatively high margin contracts. PAT margin though continues to remain healthy moderated marginally with high interest outgo attributable to increase in bank borrowings utilisation. In H1FY22, the company has achieved topline of about ~Rs.87 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 FY21, mainly due to delayed payments from the IR, its principal clientele mainly in the last month of FY21 due to pandemic effect.

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 August 2021, was moderate at about ~ 75%.

- **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)

Liquidity: Strong

PEPL's liquidity profile appears to be strong in the near to medium term driven by its expected sufficient cash accruals vis-a-vis insignificant nil debt repayments during FY22-24. 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 average working capital limit utilisation remained moderate at ~75% for the twelve months ended September, 2021 indicating a moderate liiuduty buffer. Nevertheless, the overall gearing remained comfortable at 0.42x as on March 31, 2021 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: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	231.22	209.66
EBITDA	30.83	29.38
PAT	21.49	19.39
Total Debt	38.02	44.67
Tangible Net worth	83.32	105.66
EBITDA Margin (%)	13.33	14.01

For the year ended* / As On	31-03-2020	31-03-2021
PAT Margin (%)	9.24	9.16
Overall Gearing Ratio (x)	0.46	0.42

Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	25.00	IVR A-; Stable Outlook	IVR A- ;Stable Outlook (August 20, 2021)	IVR A- ;Stable Outlook (May 21, 2019)	-
2.	Bank Guarantee	Long Term/ Short Term	70.00	IVR A- ;Stable outlook/IVR A2+	IVR A- ;Stable outlook/IVR A2+ (August 20, 2021)	IVR A- ;Stable outlook/IVR A2+ (May 21, 2019)	-
3.	Proposed Bank Guarantee	Long Term/ Short Term	80.00	IVR A- ;Stable outlook/IVR A2+	-	-	-

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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 A-; Stable Outlook
Long Term/Short Term Bank Facilities – Bank Guarantee	-	-	-	70.00	IVR A-; Stable outlook/ IVR A2+
Proposed Long Term/Short Term Bank Facilities – Bank Guarantee	-	-	-	80.00	IVR A-; Stable outlook/ IVR A2+

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Param-enterprises-nov21.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Bank Guarantee	Simple

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.