Press Release

Param Enterprises Private Limited

August 20, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	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
Total	**95.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The 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 note that the capital structure and debt protection metrics have remained comfortable as on the last three account closing dates with improvements in FY20 (Prov.). However, these rating strengths are partially offset by moderation in the financial performance in FY20 (Prov.), working capital-intensive nature of operations, client concentration risk and 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

PEPL is engaged in carrying out Railway Signaling & Telecommunication projects exclusively for Indian Railways on turnkey basis under the leadership of CMD, Mr. Puneet Pathak, who has vast experience of four decades in the sector. 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 Signaling & 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 signalling 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 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 has tie-ups with its key suppliers: Siemens 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 near to medium-term revenue visibility

As on April 01, 2020, the company has an unexecuted order book of ~Rs.624.58 crore, i.e. ~2.75 times of its FY20 (provisional) total operating revenue (i.e. Rs.227.46 Crore). 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 medium-term revenue visibility.

Comfortable gearing and debt protection metrics

The capital structure of the company is comfortable throughout the past three account closing dates. The long-term debt equity ratio and the overall gearing ratio were comfortable at 0.05x and 0.66x respectively as on March 31, 2019 and it further improved to 0.02x and 0.47x respectively as on March 31, 2020 (Prov.). Total debt / Adjusted Net worth was comfortable at 1.42x as on March 31, 2020 (Prov.). 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 10.16x (16.46x in FY19) and 2.24x (1.86x in FY19) respectively in FY20 (Prov.). Further, to support the liquidity of the company the promoters have infused Rs.2 crore during FY20.

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 March 31, 2020, all contracts have escalation clause to protect margins.

Key Rating Weaknesses

Moderation in financial performance in FY20 (Prov.)

PEPL's total operating income witnessed a decline of 26.54% from Rs.309.64 crore in FY19 to Rs.227.46 crore in FY20 (Prov.). The decline in turnover was largely due to lesser number of contracts bided in FY20 as compared to FY19 due to lower profit opportunity coupled with elongation in collection period from the Indian Railways. This apart, due to current pandemic situation, there was slowdown in the supply and execution of contracts during the last quarter of the financial year 2020 leading to decline in TOI in FY20 as compared to FY19. With moderation in revenue, absolute EBITDA also declined from Rs.28.92 crore in FY19 to Rs.25.17 crore in FY20 (Prov.). However, in spite of decline in topline and absolute EBITDA, the EBITDA margin improved from 9.34% in FY19 to 11.07% in FY20 (Prov.) on the back of selective contract bidding and consequent execution of relatively high margin contracts. Consequently, PBT and PAT margin also improved from 7.97% and 6.34% respectively in

FY19 to 8.40% and 6.60% respectively in FY20 (Prov.). During Q1FY20, the company has achieved a revenue of ~Rs.47 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 FY20 (Prov.) mainly due to delayed payments from the Indian Railways (IR) mainly in the last month of FY20 due to pandemic effect. However, the principal clientele being IR, PEPL has low default risk attached with receipt of dues from its customers. The average working capital utilization in the last 12 months ended July, 2020, was moderate at about ~ 87%.

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 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 signaling 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 sufficient accruals in cash accruals with nil debt repayments. 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 ~87% for the last twelve months ended July, 2020 indicating a moderate buffer. Nevertheless, the overall gearing remained comfortable at 0.47x as on March 31, 2020 (Prov.) indicating sufficient gearing headroom. The amount of free cash and bank equivalents stood comfortable at Rs.7.89 crore as on June 30, 2020.

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	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	309.64	227.46
EBITDA	28.92	25.17
PAT	19.67	15.04
Total Debt	37.04	34.62
Adjusted Net worth	59.45	74.78
EBITDA Margin (%)	9.34	11.07
PAT Margin (%)	6.34	6.60
Overall Gearing Ratio (x)	0.66	0.47

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

Acuite Ratings has moved the rating of PEPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated December 13, 2019.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	25.00	IVR A-; Stable Outlook	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+ (May 21, 2019)	-	-

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.

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About Infomerics:

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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+