

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Param Enterprises Private Limited

May 21, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	25.00	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
Long Term/Short Term Bank Facilities	58.00	IVR A- /Stable/IVR A2+ (IVR Single A Minus with Stable Outlook, IVR A Two Plus)	Assigned
Short Term Bank Facilities	12.00 (Including proposed limits of 12.00 crores)	IVR A2+ (IVR A Two plus)	Assigned
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) derive comfort from its long track record & experienced promoters, sound engineering acumen & proven project execution capability, escalation clause attached to most of the contracts and strong relationship with Indian railways (its main customer) & suppliers. The ratings also factor in its growth in operations and profit in absolute terms, comfortable liquidity, healthy capital structure and comfortable debt protection metrics and its strong order book reflecting satisfactory medium-term revenue visibility. However, the strengths are partially offset by its client concentration risk, highly fragmented & competitive nature of the construction sector and high working capital intensity. Growth in operation while maintaining profitability, sustenance of healthy capital structure and efficient working capital management are the key rating sensitivities.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Long track record & experienced promoter

PEPL, is an ISO 9001 company, engaged in carrying out Railway Signalling & Telecommunication projects exclusively for Indian Railways on turnkey basis under the leadership of CMD, Mr. Puneet Pathak. Mr. Pathak, has vast experience of four decades in railway infrastructure.

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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 suppliers

PEPL installs signaling and telecommunication equipment for the Indian Railways on a turnkey basis. On an average basis PEPL bid success rate is around 86% of the tenders bid, portraying the strong foothold of the company 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.

Strong order book reflecting satisfactory medium term revenue visibility

The company has a decent unexecuted order book as on March 31, 2019. 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.

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, 2019, all contracts have escalation clause.

Growth in operations and profit in absolute terms

PEPL has achieved a growth of about 209% in total operating income in FY19 (provisional) over FY18 resulting in growth in absolute EBIDTA as well. on the back of increase in the flow of orders. PEPL posted an EBIDTA margin of 9.28% in FY18, a deterioration of 158 bps from 10.86% in FY17 mainly on account of rise in operational costs (mainly labour cost) and increase in input costs. The PAT margin decreased minimally, mainly driven by increase in finance charges. However, the absolute PAT in FY 18 almost increased by two third of the absolute PAT in FY 17.

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Comfortable debt protection metrics and gearing

The capital structure of the company is comfortable throughout the past three account closing dates. The debt protection metrics marked by the interest coverage ratio and Long-term debt to GCA also remained moderate during the aforesaid period.

Key Weaknesses

Client Concentration Risk

The company's performance is totally based on the orders from the Indian Railway. Any policy change at IR will have serious effect on the performance of the company.

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 some extent.

High Working Capital intensity

The operations of company are working capital intensive due to its 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. The operating cycle of the company has generally been, being in the vicinity of 60-90 days in the past three account fiscal mainly due to its moderate collection period as the projects involve retention money. The average working capital utilisation in the last 12 months ended March, 2019, was moderate at about 80%. However, the major client being Indian Railways, the counter party default risk is low.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios and Interpretation (Non-financial sector)

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Liquidity

PEPL's liquidity profile seems comfortable in the medium term. The long-term debt of the company, on overall basis, is minimal and hence, debt servicing obligations are majorly on interest on working capital borrowings. The company has about 20% of working capital limit unutilised indicating a moderate cushion available for liquidity. The liquidity profile seems satisfactory in near to medium term.

About the Company

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 signaling & telecommunication tenders floated by the Indian Railways and takes contracts of supply, installation, testing & commissioning of modernization of signaling & telecommunication system including automatic signaling 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):

For the year ended* / As On	(Rs. crore)	
	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	59.27	99.80
EBITDA	6.44	9.26
PAT	2.99	4.98
Total Debt	14.61	21.63
Tangible Net worth	27.90	32.64
EBITDA Margin (%)	10.86	9.28
PAT Margin (%)	5.00	4.92
Overall Gearing Ratio (x)	0.52	0.66

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	25.00	IVR A- /Stable	-	-	-
2.	Long Term/ Short Term Non Fund Based Limits – Bank Guarantee	Long/ Short Term	58.00	IVR A2+	-	-	-
3.	Short Term Non Fund Based Limits –Bank Guarantee (including proposed limits of Rs.12.00 crores)	Short Term	12.00	IVR A2+	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Aakanksha N. Banthia

Tel: (033) 46022266

Email: abanthia@infomerics.com

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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank

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facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	25.00	IVR A-/Stable
Bank Guarantee	-	-	-	58.00	IVR A2+
Bank Guarantee (including proposed limits of Rs.12.00 crores)	-	-	-	12.00	IVR A2+