

CREDIT RATING REPORT

APRIL 2021

Paras Defence and Space Technologies Limited

Ratings reaffirmed at 'CRISIL BBB+ / CRISIL A2 '; outlook revised to 'Negative'

Rating Action

Total Bank Loan Facilities Rated	Rs.103 Crore
Long Term Rating	CRISIL BBB+/Negative (Reaffirmed and outlook revised to 'Negative')
Short Term Rating	CRISIL A2 (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Rating History

Date	Long Term Rating	Short Term Rating	Rating Watch/Outlook
Mar 1, 2021	CRISIL BBB+	CRISIL A2	Negative
Jan 22, 2020	CRISIL BBB+	CRISIL A2	Stable
Nov 19, 2018	CRISIL BBB+	CRISIL A2	Stable

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Paras Defence and Space Technologies Limited (Paras) to 'Negative' from 'Stable' and reaffirmed the rating at 'CRISIL BBB+'. The rating on the short-term bank facilities has been reaffirmed at 'CRISIL A2'.

The negative outlook reflects continuous stretch in its working capital cycle over the last three years evident from high gross current assets (GCAs) of 428 days as on March 31, 2020, which continues to remain high as on December 31, 2020. Furthermore, with 50% of the revenue are booked in Q4, it has limited cushion available to address the additional working capital requirements given bank lines are more than 95% utilized currently. Hence, timely collection of receivables and enhancement in bank lines will remain key monitorable.

The ratings continue to reflect extensive experience of Paras' promoters and their technical expertise, its diversified product portfolio and healthy customer profile and its above-average financial risk profile. These strengths are partially mitigated by increasing working capital requirements and susceptibility of revenue and operating profitability to tender based business.

Rating Drivers

Strength

- Extensive experience of promoters and technical expertise
- Diversified product portfolio and healthy customer profile
- Above-average financial risk profile

Weaknesses

- Increasing working capital requirement
- Susceptibility of scale of operations and operating profitability to tender based business

Outlook: Negative

CRISIL Ratings believes that Paras' credit risk profile may be impacted on account of large working capital requirements and high bank limit utilization.

Rating Sensitivity Factor

Upward factor

- Sustained improvement in scale of operation and sustenance of operating margin, leading to higher cash accruals
- Improvement in working capital cycle, leading to bank limit utilization below 90%

Downward factor

- Stretch in working capital cycle impacting liquidity with sustained bank limit utilization of close to 100%
- Decline in operating profitability or scale of operations leading to lower cash accruals

About the company

Paras, setup in 1977 by Mr. Sharad Shah, is a supplier of tier-2 products to the defense and space sector, in the domain of optics, heavy engineering and electronics. The day-to-day operations are currently managed by Mr. Munjal Shah (son of Mr. Sharad Shah) and it has 3 manufacturing facilities located in Thane, Navi Mumbai and Hyderabad.

Business Risk Profile

Extensive promoter's experience and technical expertise: Paras was set up in 1980s by Mr. Sharad Shah. Mr. Munjal Shah, son of Mr. Sharad, is the key promoter currently and has experience of 2 decades in supplying of motor tube used in rockets and around 4 years of experience of selling optical lenses to defence public sector undertakings (PSUs). Over the decades, Paras has developed strong engineering and design capabilities, which has helped it in meeting the changing demands from its customers. The company is an ISO 9001:2000 certified company in the field of Ultra High Precision manufacturing (Nano Technology Machining). The quality and accuracy levels of products have to be high for these components. Further, it currently has a strong order book position of around Rs 225 crore as of January 2021 spanning across its business verticals, aided by its established track record of timely and satisfactory completion of tenders. Paras is expected to continue to benefit from extensive experience of promoters and their acquired technical expertise.

Diversified product portfolio and healthy customer profile: Paras has a wide range of products which find application in diverse sectors like heavy engineering (22% of revenues), defence & space optics (45% of revenues) and defence electronics (33% of revenues). Its key domestic customers include Bhabha Atomic Research Centre (BARC), Bharat Electronics Ltd (BEL) and Indian Space Research Organization (ISRO), Defense Research and Development Organisation (DRDO) while internationally it exports majorly to companies based in Israel,

Singapore and USA. Paras' business risk profile to continue to benefit from its diversified product portfolio and healthy customer profile over the medium term.

Susceptibility of scale of operations and operating profitability to tender based business:

Despite Paras having well-diversified product profile with different products providing different profitability, its business performance is entirely dependent on the nature of tender received from its customers, owing which both scale and profitability are expected to remain volatile. Further, with ISRO accounting for around 50% of its order book of Rs 225 crore (as on Jan-2021), it will continue to remain exposed to concentration risks.

Increasing working capital requirement: Working capital requirements are high as reflected by gross current assets of 428 days as on March 31, 2020 (increased from 365 days a year before) which is majorly driven by debtors of 242 days (increased from 197 days a year before) and inventory of more than 200 days. The working capital cycle is high as on March as more than 50% of sales are recorded in Q4 of the fiscal. Since, Paras manufactures various kind of products with long processing times, inventory levels remain high. Paras' working capital requirements are expected to remain high and management of the same remain a key rating sensitivity factor.

Above-average Financial Risk Profile

Healthy networth: The networth of Paras is strong, estimated at Rs 144 crore as on March 31, 2020. It is expected to increase further due to continuous accretion to reserves owing to healthy operating profitability.

Comfortable capital structure: Paras's capital structure is marked by comfortable gearing and total outside liabilities to adjusted networth (TOLANW) ratios estimated at 0.8 and 1.2 times as on March 31, 2021. Going ahead, the metrics are expected to remain comfortable given steady accretion to reserves.

Adequate debt protection metrics: Debt protection metrics are adequate, with estimated interest coverage and net cash accruals to adjusted debt of 4 times and 0.29 times in fiscal 2021. Going ahead as well, debt protection metrics are expected to remain adequate due to controlled reliance on external debt.

Liquidity: Adequate

Strong cash accrual against modest debt obligations: Cash accrual of more than Rs 25-30 crore per fiscal is expected in fiscals 2021 and fiscal 2022 which shall be sufficient against repayment obligations of Rs. 7.8 crore annually.

High bank limit utilisation: Utilisation of fund-based limit of Rs 39 crore averaged more than 90% over the past 5 months ended January 2021.

Cash and cash equivalents were of Rs 4.6 crores as on March 31, 2020.

Unsecured loans from promoters outstanding at Rs 14.3 crore, as on March 31, 2020, partly support liquidity.

Financial Policy

Financial policy of the company is moderate as reflected by estimated gearing of 0.8 times as on March 31, 2021. Gearing is expected to improve over the medium term with no major debt funded capex plans and healthy cash generation owing to healthy operating profitability.

Hedging: Paras has natural hedging for its forex exposure for exports and imports and hence does not engage in any hedging mechanism.

Dividend: Paras has not declared any dividend historically and no dividend pay-out is expected over the medium term.

Key Financial Indicators (Standalone)

As on for the year ended March 31	Unit	2020	2019	2018
		Actuals	Actuals	Actuals
Net Sales	Rs Crore	147	154	143
Operating Income	Rs Crore	147	156	145
OPBDIT	Rs Crore	41	46	44
PAT	Rs Crore	20	19	25
Net Cash Accruals	Rs Crore	30	28	32
Equity Share Capital	Rs Crore	28	6	6
Adjusted Networkth	Rs Crore	129	108	80
Adjusted Debt	Rs Crore	103	85	66
OPBDIT Margins	%	27.7	29.5	30.3
Net Profit Margins	%	13.6	12.2	17.3
ROCE	%	13.3	18.6	35.3
PBDIT / Int. & Finance Charges	Times	4.31	4.72	6.04
Net Cash Accruals / Adjusted Debt	Times	0.29	0.34	0.48
Adjusted Debt / Adjusted Networkth	Times	0.80	0.78	0.83
Adjusted Debt / PBDIT	Times	2.49	1.84	1.49
Current Ratio	Times	1.63	1.44	1.24
Cashflow from operations	Rs Crore	-11	-20	6
TOL/ ANW	Times	1.31	1.64	1.65
Operating Income/Gross Block	Times	1.05	1.12	1.84
Gross Current Assets days	Days	428	365	199
Debtor Days	Days	242	197	62
Inventory Days	Days	207	214	158
Creditor Days	Days	132	227	86

Annexure 1: Bank-Details of Facility Classes

1.Proposed Term Loan

Bank	Amount (Rs.Cr.)	Rating
Nkgsb Co-Operative Bank Limited	2.0	CRISIL BBB+ / Negative
Total	2.0	-

2.Letter of Credit

Bank	Amount (Rs.Cr.)	Rating
Kotak Mahindra Bank Limited	5.0	CRISIL A2
Total	5.0	-

3.Term Loan

Bank	Amount (Rs.Cr.)	Rating
Kotak Mahindra Bank Limited	15.55	CRISIL BBB+ / Negative
Nkgsb Co-Operative Bank Limited	13.39	CRISIL BBB+ / Negative
Total	28.94	-

4.Loan Equivalent Risk Limits

Bank	Amount (Rs.Cr.)	Rating
Kotak Mahindra Bank Limited	3.35	CRISIL BBB+ / Negative
Total	3.35	-

5.Loan Against Property

Bank	Amount (Rs.Cr.)	Rating
Kotak Mahindra Bank Limited	1.71	CRISIL BBB+ / Negative
Total	1.71	-

6.Pre Shipment Credit

Bank	Amount (Rs.Cr.)	Rating
Kotak Mahindra Bank Limited	7.0	CRISIL A2
Total	7.0	-

7.Bank Guarantee

Bank	Amount (Rs.Cr.)	Rating
Nkgsb Co-Operative Bank Limited	8.0	CRISIL A2
Kotak Mahindra Bank Limited	15.0	CRISIL A2
Total	23.0	-

8.Cash Credit

Bank	Amount (Rs.Cr.)	Rating
Kotak Mahindra Bank Limited	22.0	CRISIL BBB+ / Negative
Nkgsb Co-Operative Bank Limited	10.0	CRISIL BBB+ / Negative
Total	32.0	-