Paramount Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	200.00	CARE BBB+; Positive / CARE A2	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	50.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Paramount Limited (Paramount) continue to derive strength from its experienced promoters, professional management, long track record of operations and technological competence with specialisation in effluent treatment for oil, gas and petroleum industry. Ratings further derive strength from Paramount's healthy profitability, reputed and established client base, healthy order book, comfortable capital structure and debt coverage indicators and adequate liquidity.

However, ratings continue to remain constrained by Paramount's moderate albeit growing scale of operations, profitability susceptible to adverse movement in input costs and foreign exchange rates, elongated operating cycle, and its presence in a competitive tender-driven industry with fortunes linked to capacity expansion plans of the petroleum and oil and gas industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in the scale of operations backed by diversification into other segments with total operating income (TOI) of over ₹300 crore and sustained PBILDT margin of more than 10%.
- Continued healthy debt coverage indicators with augmentation of net worth base to more than ₹150 crore.

Negative factors

- Deterioration in the scale of operations below ₹150 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin falling below 5% on a sustained basis.
- Deterioration in its debt coverage indicators marked by PBIDLT interest coverage of less than 3x on a sustained basis.
- Collection period staying more than 225 days on sustained basis and in turn impacting the liquidity of the company.

Analytical approach: Standalone

Outlook: Positive

Outlook on the long-term rating of Paramount has been revised from 'Stable' to 'Positive' on CARE Ratings Limited's (CARE Ratings') expectation of growth in its scale of operations from healthy order book position along with healthy profitability leading to augmentation of net worth base, and strengthening debt coverage indicators. The outlook may be revised to 'Stable' in case the company is unable to realise envisaged scale of operations and profitability.

Detailed description of key rating drivers:

Key strengths

Experienced promoters and professional management

Paramount is promoted by Kewalkrishna Tuli, who is presently Chairman emeritus and Director of the company. He is involved as advisor on strategy & technology. His son, Samir Tuli is the Chairman & Managing Director of the company and looks after the company's strategy, growth plans, research & development, technology tie-ups & innovations and infrastructure management. Dilip Shukla, who was Managing Director since 2014 has now been appointed as an independent director and he has an experience of over 40 years in engineering, procurement and construction (EPC) space with over 20 years of experience in water & waste water management industry. The company's board of directors comprises three executive and two independent directors including K. S. Patel, Chairman & Managing Director of Voltamp Transformers Limited and newly appointed independent director Sanjay Gupta, former-Chairman of Engineers India Limited. In addition to the above, the company also has professional and qualified Tier II management having experience in their respective fields.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Long track record of operations and technological competence in effluent treatment

Established in 1976, Paramount is an ISO 9001:2015 certified company, having long track record of operations spanning six decades in the water & effluent treatment industry. The company has completed over 350 projects, of which, 96 major projects pertained to Wastewater Treatment Plant (WWTP) of petroleum and oil and gas industry. The company has presence in places such as Vadodara, Chennai, Mumbai and New Delhi. From the last decade, Paramount has focused on oil and gas industry and water and waste water solutions. The company manufactures key proprietary equipment such as API oil water separators, tilted plate interceptors (TPI) & Dissolved Air Floatators (DAF), Clarifiers & Clariflocculators, Skid Mounted Membrane Systems, filters and certain vessels in its facility in Vadodara, Gujarat.

Over the period, the company has entered into technical collaborations with companies such as M/s Anderson 2000 Inc, USA, M/s Pilkenwood Water Treatment, Holland, M/s ETA Process Plant, U.K and PSC Environmental Services, U.S.A. The company has also signed a memorandum of understanding (MOU) with the UK-based Enhydra Limited effective from December 01, 2017, which provides technology assistance to it in bidding and execution of produced water treatment plant projects in offshore and onshore oil & gas industry.

Reputed and established client base albeit client concentration risk

Paramount has undertaken ETP projects for reputed clientele consisting of large corporations and Navratna government undertakings, which includes major petroleum companies in India. With limited number of large players in oil and gas industry, overall customer base of Paramount remained concentrated with top five clients contributing ~90% of its total operating income in FY24. The client concentration risk is partly mitigated by the fact that the company mainly caters to large industrial players with established track record and a strong credit profile minimising counterparty default risk.

Healthy order book position

Paramount's orderbook position was healthy at ₹811 crore as on April 01, 2024, against ₹1042 crore as on March 31, 2023, with successful implementation of the orders taken in the last two years. The order book to sales ratio stood at 3.34x providing medium term revenue stability. Moreover, with improvement in industry scenario, Paramount also has various orders under bidding and tendering stage.

Comfortable capital structure and debt coverage indicators

Paramount's capital structure continued to remain comfortable marked by overall gearing of 0.54x as on March 31, 2024, against 0.72x as on March 31, 2023. Improvement was due to lower outstanding working capital borrowings as on FY24-end as well as improvement in net worth base to ₹116.78 crore with accretion of profit to reserves (₹85.68 crore as on March 31, 2023). Over the years, promoters have supported the operational requirement through infusion of unsecured loans.

Debt coverage indicators also improved over the previous year as marked by interest coverage of 10.25x (PY: 4.54x) and TD/GCA of 1.91x (PY: 4.79x) in FY24.

Key weaknesses

Moderate scale of operations albeit healthy profitability

Paramount's scale of operations marked by TOI exhibited significant growth of ~71% on y-o-y basis and remained moderate at ₹242.56 crore in FY24 on the back of execution of healthy order book with increase in demand post COVID. The healthy order book position is expected to drive the growth in the scale going forward. CARE Ratings expects TOI to further improve to over ₹300 crore in the current year.

The company's PBILDT margin also improved significantly by 537 bps Y-o-Y and stood at 19.75% in FY24 (PY: 14.37%) owing to higher absorption of fixed cost due to better capacity utilisation and benefits derived from metal and commodity price volatility. With lower reliance on working capital borrowings resulting in low interest cost, PAT margin also increased by 448 bps to 13.18% in FY24 (PY: 8.70%)

Elongated operating cycle

Paramount's operations are inherently working capital intensive as they are engaged in EPC contracts, which have long execution cycle. The contract life extends up to 1-3 years and receipt of money on percentage completion basis coupled with retention money, which is received after project completion and Performance Guarantee Test Run (PGTR) with specific input for testing prolongs the realisation of funds.

In FY24, working capital cycle though improved, remained elongated at 148 days compared to 210 days in FY23 with improved collection period. However, total debtor days remained high at 183 days in FY24 as major revenue booking is done at the year end. Total debtors stood at ₹118.11 crore as on March 31, 2024, reduced to ₹75.47 crore as on August 31, 2024.

Competitive industry and tender-driven nature of business
High level of safety, security and regulatory requirements are key for the entire EPC business, which is controlled by proprietary software and requires specialised skills to be developed and a demonstrated track record. Contracts are awarded on tender basis, which requires company to meet bidding criteria qualification and acts as a very strong entry barrier. However, due to presence of few large players such as VA Tech Wabag, Larsen & Toubro Limited, Toshiba Water Solutions, Ion Exchange Limited, and Suez among others in this business, there is competition at the time of bidding of contract.

Profitability susceptible to adverse movement in inputs prices and foreign exchange rates
Profitability is susceptible to adverse movements in input prices in the absence of price-escalation clause in most contracts undertaken by the company. The company also faces foreign exchange fluctuation risk on the un-hedged portion of its imported membranes, which are essential for setting up of water treatment plants.

Fortunes of the company are linked to capacity expansion in the petroleum and oil and gas industry
Paramount has major concentration in terms of revenue and orderbook in oil and gas industry, where it specialises, leading to its future growth prospects being linked to capacity expansion plans in the industry and/or requirement of WTP & ETP. However, the government oil companies had planned to incur a capex of ₹1,18,500 crore for FY25, which will benefit players such as Paramount.

Liquidity: Adequate
Paramount had adequate liquidity marked by low utilisation of fund based working capital limits and no scheduled long-term debt repayments. The maximum fund-based limit utilisation remained low at ~21% for 12-months ended June 2024. Non-fund-based limit utilisation remained moderate at ~61% [PY: 41%] for 12-months ended August 2024. Major portion of bank guarantee utilisation is in respect of performance bank guarantee for projects and the balance portion is for retention money and mobilisation advance. The company reported healthy cash flow from operations (CFO) of ₹27.71 crore compared to negative CFO of ₹-11.23 crore in FY23 due to recovery of receivables.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry
Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

Paramount (CIN; U74120GJ1976PLC002956) was incorporated as Paramount Pollution Control Limited in 1976 by Mr. Kewalkrishna Tuli, Mr. Dharmendra Patel and Mr. Hasmukh Desai and its name was changed to present one in 2000. Paramount is engaged in EPC projects in the field of water & waste water treatment; treatment, recycling & zero liquid discharge of effluents and environmental management. The company mainly caters to the industrial segment and specialises in water & waste treatment in hydrocarbon, oil & gas industry. The company uses proprietary technology for the construction of water treatment plants (WTP) specifically for the oil and gas industry.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	141.95	242.56
PBILDT	20.40	47.90
PAT	12.34	31.96
Overall gearing (times)	0.72	0.54
Interest coverage (times)	4.54	10.25

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned and Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	27.00	CARE BBB+; Positive / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	173.00	CARE BBB+; Positive / CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	50.00	CARE A2

Annexure-2: Rating history for last three year

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Cash Credit	LT/ST	27.00	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (09-Oct-23)	1)CARE BBB+; Stable / CARE A2 (27-Oct-22)	1)CARE BBB+; Stable / CARE A2 (15-Sep-21)
2	Non-fund-based - ST-Letter of credit	ST	50.00	CARE A2	-	1)CARE A2 (09-Oct-23)	1)CARE A2 (27-Oct-22)	1)CARE A2 (15-Sep-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	173.00	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (09-Oct-23)	1)CARE BBB+; Stable / CARE A2 (27-Oct-22)	1)CARE BBB+; Stable / CARE A2 (15-Sep-21)

LT/ST: Long term/Short term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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