

Premco Rail Engineers Limited

March 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.50	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	26.74	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Premco Rail Engineers Limited (PREL) continues to derive strength from the experience of the promoters, long track record of operation with reputed client base, stable order book position and diversification of client base and comfortable capital structure. The ratings also take into consideration adequate liquidity position of the company with no long term debt repayment obligation and low working capital utilisation. The ratings are, however, constrained by small scale of operations of the company, working-capital intensive nature of business and profits susceptible to volatile input prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement marked by total operating income of more than Rs. 100 crore along with PBILDT margin over 10% on sustained basis.
- Steady flow of orders and timely execution of the order book.

Negative factors

- Elongation of operating cycle beyond 180 days or significant increase in gross current assets days.
- Deterioration in the debt coverage indicators or capital structure with the overall gearing going above 1x due to increase in working capital borrowings or debt-funded capex undertaken by the company.
- Decline in profitability margins with PAT margin going below 1% on sustained basis

Analytical approach: Standalone.

Outlook : Stable

Stable outlook reflects the firm's ability to sustain and improve its revenue and liquidity position going ahead while maintaining its capital structure.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and qualified management team

Mr. Prem Kumar Lihala, MD has around four decades of experience in the business of railway construction industry and currently looks after the day-to-day operations of PREL. He is actively supported by Mr. Anup Kumar Lihala who has an experience of around three decades in the industry and looks after contract procurement and execution activities and Mr. Mausam Lihala who has an experience of around two decades. In addition to the promoter group, PREL has a strong management team which comprises engineers, and other professionals who are qualified with rich experience in the industry.

Long track record and proven project execution capabilities with reputed client base

The company was incorporated in 1998 and was initially engaged in small scale works related to railway infrastructure. On 1st April 2006, PREL took over the business of Premco Traders, a sole proprietary concern of Mr. Prem Kumar Lihala which was engaged for more than three decades in development of rail infrastructure for government and private sector on turnkey basis. Since then, the company has its presence in almost all the divisions related to rail infrastructure development like Rail bed formation, linking tracks, construction of bridges, overhead electrification work, signalling and telecommunication works related to railways.

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

PREL has a satisfactory contract completion track record. The company has more than 50 engineers who are highly experienced. Furthermore, repetitive orders received from its Indian Railways corroborate company's proven project execution capability. PREL is an approved consultant for design and construction of private sidings, by various zones of the Indian Railways. It also provides various services for development of private railway network for core sector industries.

The clients of PREL consist of reputed players from both private and public sectors. The present order book consists of orders from reputed entities like Indian railways, Rail Vikas Nigam Limited, Ultratech Cement Limited and ITD Cementation India Limited.

Order book position providing revenue visibility in near term albeit client concentration

The company has outstanding order book position of Rs 74 crores as on December 31, 2024 (Rs. 50 crore as on December 31, 2023) which is 1.92x of net billing in FY24. The order book majorly consists of orders from Indian railway which exposes PREL to client concentration risk. However, the company has diversified its order book by adding clients like Ultratech Cement Ltd [CARE AAA; Stable / CARE A1+] and ITD Cementation India Limited [CARE A (RWP) / A1 (RWP)] during FY25.

Comfortable capital structure

The capital structure of PREL continues to remain comfortable with Nil debt as on March 31, 2024. The company has no long term debt obligation and the utilisation of working capital limits remains negligible. Going ahead, the capital structure is expected to remain at a similar level as the company does not have any plan to increase its borrowings other than existing Rs. 0.50 crore fund based limits.

Key weaknesses

Relatively small player in the industry & executing small size projects

The operating income of the company moderated in FY24 to Rs 38.42 crore as against Rs. 43.20 crore in FY23 attributable to lower billings during Q4FY24. Overall scale of operations continues to remain small compared to overall scale of the industry and other players operating in the industry. The small scale deprives the company from benefits of economies of scale. The turnover in 9MFY25 stood at around Rs.27 crore.

The PBILDT margin continued to stay low at 0.30% during FY24 (Negative 1.09% in FY23) majorly owing to low absorption of fixed expenses along with writing off old pending debtors as bad debts during the last 2-3 years. The scale of operations are expected to improve gradually in mid-term with expected improvement in order flow, also leading to expected improvement in margins.

Working capital intensive nature of business

The operations of company are working capital intensive due to tender based and long-term nature of contracts. Further, a part of the sales proceeds are also withheld in the form of retention money due to long duration of construction projects, which gets released after the successful completion of performance guarantee test period. In addition, the company needs to maintain raw material inventory for timely execution of projects.

The gross current asset days moderated significantly owing to increase in unbilled amount for work already completed and work in progress during last quarter of FY24. PREL recorded unbilled revenue & work in progress of around Rs 17.50 crores in FY24 as against Rs 8.00 crores in FY23, which resulted in increase in inventory days to 54 days in FY24 (FY23: 16 days).

Volatile input prices

The basic input materials for execution of construction projects and works contracts are steel, stone chips, bitumen, cement etc. The prices of which are highly volatile. Furthermore, the operating margin of the company is exposed to any sudden spurt in the input material prices along with an increase in labour prices being in labour intensive industries. However, railway work contracts have price escalation clauses which mitigates price volatility risk to some extent.

Liquidity: Adequate

The liquidity position of PREL is marked adequate with GCA of Rs 3.20 crores in FY24 with no long term debt repayment obligation. The 0.50 crore cash credit limit has an average maximum utilisation of 45% for 12 months period ending December 2024. Furthermore, the company maintains an adequate liquidity position with free cash and liquid balance of Rs 34 crores and lien marked fixed deposit of Rs 8.00 crores, as on March 31, 2024.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Premco Rail Engineers Ltd. (PREL), promoted by Mr. Prem Kumar Lihala belongs to Kolkata based Premco group of companies engaged in infrastructure development with primary focus on railway infrastructure. The company was incorporated in 1998 and was initially engaged in small scale works related to railway infrastructure. On 1st April 2006, PREL took over the business of Premco Traders, a sole proprietary concern of Mr. Prem Kumar Lihala which was engaged in development of rail infrastructure for government and private sector on turnkey basis for more than three decades. Presently, PREL is engaged in earthwork, construction of main line railway tracks, platforms, railway siding, overhead electrification, railway signalling & telecommunication, pavement and road construction works. PREL is an approved consultant for design and construction of private sidings, by various zones of the Indian Railways. It also provides various services for development of private railway network for core sector industries.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	43.20	38.42	26.53
PBILDT	-0.47	0.12	-
PAT	1.12	2.46	-
Overall gearing (times)	0.01	0.00	-
Interest coverage (times)	-1.48	0.24	-

A: Audited UA: Unaudited; 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-Cash Credit		-	-	-	0.50	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	26.74	CARE A3

Annexure-2: Rating history for last three years

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-Cash Credit	LT	0.50	CARE BBB-; Stable	1)CARE BBB-; Stable (24-Apr-24) 2)CARE BBB- (RWD) (02-Apr-24)	1)CARE BBB- (RWD) (25-Jan-24)	1)CARE BBB-; Stable (07-Feb-23)	1)CARE BBB-; Stable (04-Feb-22)
2	Non-fund-based - ST-Bank Guarantee	ST	26.74	CARE A3	1)CARE A3 (24-Apr-24) 2)CARE A3 (RWD) (02-Apr-24)	1)CARE A3 (RWD) (25-Jan-24)	1)CARE A3 (07-Feb-23)	1)CARE A3 (04-Feb-22)

LT: Long 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 the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender detailsTo view the 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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