Paramount Limited

October 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	200.00	**CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)**	**Reaffirmed**
Short Term Bank Facilities	50.00	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Facilities	**250.00 (Rupees Two Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Paramount Limited (Paramount) continue to derive strength from its experienced promoters and professional management, long track record of operations and technological competence with specialization in effluent treatment for oil, gas and petroleum industry. The ratings further continue to factor in its reputed client base and comfortable capital structure.

The ratings, however, continue to remain constrained by its moderate scale of operations and order book, moderate profitability, long collection period and its presence in a competitive tender driven industry. The ratings are also tempered by its susceptibility to adverse movement in input costs and foreign exchange rates.

Rating Sensitivities

Positive Factors:

- Significant growth in scale of operations with TOI over Rs.200 crore and PBILDT margin of more than 10% on a sustained basis.
- Improvement in debt coverage indicators with PBILDT interest coverage above 4 times and TD/GCA falling below 5 times on sustained basis.
- Curtailment of its operating cycle to around 120 days through improvement in its debtor collection period.

Negative Factors

- Deterioration in scale of operations with TOI below Rs.100 crore and PBILDT margin falling below 5% on a sustained basis.
- Deterioration in its debt coverage indicators marked by PBIDLT interest coverage of less than 2 times on a sustained basis.
- Elongation of its operating cycle beyond 200 days with elongation of debtors.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and professional management

Paramount Limited is promoted by the Mr. Kewalkrishna Tuli, who is the Chairman of the company and is involved in strategic decision making. He is assisted by his son Mr. Samir Tuli and professional staff. Mr. Samir Tuli looks after company's strategy, growth plans, research & development, technology tie ups & innovations and infrastructure management of the company. The company has appointed Mr. Dilip Shukla as the Managing Director of the company since 2014. Mr. Shukla has an experience of more than 35 years in engineering & EPC space with over 15 years of experience in water & waste water management industry through his association with KEC International Limited and Doshion Veolia Water Solutions Private Limited in past. The company's board of directors comprises of three executive and two independent directors. In addition to the above, the company has professional and qualified Tier-II management having experience in their respective fields.

Long and established track record of the company and technological competence in effluent treatment

Established in 1976, Paramount has long track record of operation of over four decades in the effluent treatment industry. The company is an ISO 9001:2015 certified company and has over 352 projects to its name out of which major projects pertained to Waste Treatment Plant (WTP) of petroleum and oil and gas industry (84 projects). Paramount also has a Research & Development department which is recognized by State & Central pollution control boards and by the Department of Science & Technology. The company has presence in places like Vadodara, Chennai, Mumbai & New Delhi.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Although Paramount has undertaken projects spread over different industries, however, during the last decade majority of its orders have been concentrated towards the oil and gas industry. The company manufactures key proprietary equipment like API (American Petroleum Institute) oil water separators, TPI (Tilted Plate Interceptors) & DAF (Dissolved Air Flotators), pressure vessels and membrane based systems in its associate concerns.
Further, over the period, company had entered into technical collaborations with companies like 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 an MOU with UK based Enhydra Ltd effective from December 1, 2017 which would provide technology assistance to it in bidding & execution of produced water treatment plant projects in offshore and onshore oil & gas industry. Paramount has received an order in FY19 from Oil India Limited linked to the usage of technology of Enhydra Ltd. which is under execution phase.

Reputed and established client base; albeit client concentration risk
Paramount has undertaken ETP projects for reputed clientele consisting of large corporations and government departments which includes major petroleum companies in India. However, its customers remained concentrated viz. four clients contributed 100% of its TOI for FY20 (A) of Rs.142.66 crore. The client concentration risk is partly mitigated by the fact that the company mainly caters to large and strong players in the oil & gas sector like Oil India Limited (rated: CARE AAA; Stable/ CARE A1+), Chennai Petroleum Corporation Limited (rated: CARE AAA; Stable), Engineers India Limited (rated: CARE AAA; Stable/ CARE A1+), Hindustan Petroleum Corporation Limited and Oil and Natural Gas Corporation Limited (rated: CARE AAA; Stable/ CARE A1+), which are public sector companies with established track record and a strong credit profile thereby minimizing counter party credit risk.

Comfortable capital structure
Paramount has a comfortable capital structure marked by an overall gearing of 0.62 times as on March 31, 2020. The overall gearing had improved from 0.85 times on March 31, 2019. The total debt as on March 31, 2020 included loans from directors and related parties amounting to Rs.27.14 crore, long term mobilization advances amounting to Rs.3.64 crore and LC backed creditors amounting to Rs.2.60 crore.

Liquidity - Adequate
Paramount has adequate liquidity position marked by low utilization of working capital limits, healthy liquidity ratios and no scheduled long-term debt repayments. The fund-based limit utilization remained very low marked by an average utilization of ~0.14% during the 12 months ended August-2020. The current ratio has improved from 2.67 times in end-FY19 to 4.87 times in end-FY20 due to low utilisation of working capital limits and decrease in customer advances. However, non-fund based limit utilization remained moderate at 61% for the past 12 months ended August-2020. The cash and bank balance of the company stood modest at Rs.0.98 crore as on March 31, 2020. Operating cycle, however, stood long at 163 days in FY20 as against 156 days during FY19. Further, no moratorium was availed by the company from the banker under the Covid-19 relief measured announced by RBI.

Key Rating Weaknesses
Moderate scale of operations and profitability
Despite a long track record of operations of more than four decades the scale of operations of the company have remained moderate marked by Total Operating Income (TOI) of Rs.142.66 crore in FY20(A) as compared with Rs.159.28 crore in FY19 (A). The company usually takes limited number of contracts with focus on the oil and gas industry. The decline in TOI in FY20 is mainly due to disruption on account of Covid 19 pandemic and lockdown thereon which resulted in lower billing in last week of March 2020 and non-dispatch of certain equipment worth Rs.12 crore which were pending inspection.

The PBILDT margin had remained at moderate level though improved in FY20 to 7.26% from 6.29% in FY19 but was lower than FY18. The variability is due to billing cycle and varied margin in different projects. The company has moderate debt coverage indicators marked by moderate interest coverage of 2.13 times in FY20 (P.Y.: 2.22 times) and high Total debt to Gross Cash Accruals of 8.10 years in FY20 (P.Y.:10.41 years).

Impact of Covid-19 pandemic
As informed by the company management, Paramount was working on projects in 6 refineries, out of which only 2 were operational during the lockdown imposed by the government from March 25, 2020 to control the spread of Covid-19. However, one had resumed its operations in April 2020 and the rest of the refineries had resumed their operations in May and June 2020. The group companies, Paramount Technologies Limited & Polcon Equipments Limited, which supply certain equipment used by the company for construction were also shut down during the lock down. They began their operations after mid-May 2020. The company had faced some labour shortage during the lockdown but the labourers are getting back to work gradually. Till July-2020, Paramount has reported sales of Rs.10.50 crore. However, there was strong focus on collection resulting in lower debtors.

Moderate order book position with concentration risk
Paramount had outstanding orders of Rs.400.85 crore as on March 31, 2020 which increased form Rs.258.49 crore as on March 31, 2019 resulting in the order book to sales ratio of 2.81 times providing medium term revenue visibility. The order book is concentrated as it is mainly towards the Oil and Gas industry with top two orders forming 72% of its unexecuted order book.

Very long collection period
The operations of Paramount are inherently working capital intensive as they are engaged in EPC contracts which have long execution periods leading to long operating cycle. The receivable days had increased to 183 days during FY20 from 162 days during FY19 due to moderation in TOI. In absolute terms the outstanding debtors balance stood at Rs.68.71 crore as on March 31, 2020 (more than six months debtors of Rs. 34.75 crore) as against Rs.74.35 crore as on March 31, 2019 (more than six months debtors of Rs.39.66 crore). With good collection during lockdown period, the total outstanding receivables had reduced to Rs.59.04 crore as on June 30, 2020.

Susceptibility of profitability to adverse movement in inputs prices and foreign exchange rates
Paramount's profitability is susceptible to adverse movements in input prices in the absence of price escalation clause in most of the 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 the capacity expansion in the petroleum and oil and gas industry and competitive tender driven industry
Paramount has major concentration in terms of revenue and order book towards the oil and gas industry which intricately links its future growth prospects to the capacity expansion plans in the industry and/or requirement of ETP for the same. Company plans to also expand its presence in other industrial ETP, waste water recycling & zero liquid discharge projects as well as municipal waste treatment & recycling projects; albeit till now Paramount doesn't have major presence in these segments. The Government oil companies had planned to incur a capital expenditure of Rs.98,522 crore as per Budget 2020. This results in higher amount of waste and effluent removal which is expected to result in higher demand of effluent & water treatment plants which would benefit players like Paramount. However, the industry is dominated by few large players and contracts are awarded through tender process resulting in high degree of competition.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE'S Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial Ratios - Non-Financial Sector

About the company
Paramount (CIN; U74120GJ1976PLC002956) was incorporated as Paramount Pollution Control Limited in 1976 by Mr. Kewalkrishna Tuli, Mr. Dharmendra Patel & Mr. Hasmukh Desai and changed its name to present form in 2000.
Paramount is engaged in EPC (Engineering, Procurement & Construction) projects in the field of waste water treatment, recycling of effluent and environmental management. The company mainly caters to the industrial segment and specializes in water 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.
Paramount had also filed for scheme of amalgamation of Tuli Patel Investment Private Limited (Investment company), Paramount Technologies Limited (PTL; manufactures certain parts for Paramount) and Polcon Equipments Limited (PEL; manufactures certain equipment for Paramount) with NCLT on March 18, 2020. PEL and PTL have very small scale of operations with TOI of Rs.2.01 crore and Rs.4.83 crore respectively in FY19 with majority of sales to Paramount.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	159.28	142.66
PBILDT	10.02	10.36
PAT	3.81	3.71
Overall gearing (times)	0.85	0.62
Interest coverage (times)	2.22	2.13

A- Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	50.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	50.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	150.00	CARE BBB; Stable / CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	50.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (09-Sep-19) 2)CARE BBB; Stable / CARE A3+ (13-Aug-19)	1)CARE BBB; Stable / CARE A3+ (10-May-18)	-
2.	Non-fund-based - ST-Letter of credit	ST	50.00	CARE A3+	-	1)CARE A3+ (09-Sep-19) 2)CARE A3+ (13-Aug-19)	1)CARE A3+ (10-May-18)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	150.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (09-Sep-19) 2)CARE BBB; Stable / CARE A3+ (13-Aug-19)	1)CARE BBB; Stable / CARE A3+ (10-May-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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