Paras Defence and Space Technologies Limited

May 2, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long /Short term Bank Facilities	18.00 (Enhanced from 13)	**CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable / A Four)**	Reaffirmed
Short term Bank Facilities	10.00 (Enhanced from 7)	**CARE A4 (A Four)**	Reaffirmed
Total	**28.00 (Rupees Twenty Eight Crore Only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Paras Defence and Space Technologies Limited (PDSTL) continue to be constrained by relatively modest scale of operations with low capitalization, leveraged capital structure and weak debt coverage indicators and project execution risk. The ratings are further tempered by working capital intensive nature of operations and exposure to adverse movements in the raw material prices.

The ratings, however, continue to draw strength from established track record of promoters in the industry and moderate profit margins.

Ability of PDSTL to increase its scale of operations and improve profitability and capital structure along with efficient management of its working capital requirement remain the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of promoters in the industry: The promoters have been in the business of small-scale engineering and distribution of copper and copper alloys and manufacturing components for the domestic defense and aeronautical sectors for more than four decades.

Moderate profitability: The profitability of the entity remained at moderate level with high value added products manufactured by the entity with specific applications. However, still the margins are exposed to volatility in raw material prices with high holding period and high contribution of RM to total cost of production.

Key Rating Weaknesses

Modest scale of operations: The scale of operations of the company has remained at modest level since last two years as company has shifted its business from trading to manufacturing in FY15. Further the networth base also remained low thus limiting its financial flexibility and depriving it of benefits of economies of scale.

Leveraged capital structure: The capital structure of the company remained weak with low net worth base and high dependence on external borrowings to support the operations. Debt coverage indicators also remained weak owing to the same despite moderate profitability.

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

Working capital intensive operations: Working capital intensity of PDSTL remained high owing to large amount of funds blocked in Inventory and debtors as reflected by high gross current asset days of over 320 days during last three years ending FY16. The same was partly supported by credit period received from its suppliers however, despite the same utilization of working capital limits remained moderately high.

Project execution and funding risk: There has been project execution risk as the company has proposed to build 2 additional sheds till June 2017 at existing factory in Ambernath which and both the sheds are constructed till foundation only. Also the debt is not yet disbursed by the bank. Thus going forward PDSTL's ability to arrange the sufficient funds to complete the project in timely manner without any cost and time overrun shall be critical from credit perspective.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Promoted by Mr. Sharad Shah, Paras Defence and Space Technologies Limited (PDSTL) (Erstwhile Paras Flowform Engineering Limited) was incorporated in June 16, 2009 and was majorly engaged in trading of copper, copper alloys and printed circuit boards (PCB). However, since FY15 the company is purely engaged into manufacturing of components for the domestic defense and aeronautical sectors like precision tubes/chambers, using an engineering process of flow forming. The manufacturing unit of the company is located at Ambernath, Thane.

During FY16, there was merger between Paras Gate (I) Pvt. Ltd. (which had Rs. 2 crore share capital in Paras Flowform Engineering Limited) and Neetnav Realtors Pvt. Ltd. and subsequently the name changed to the current name of the company.

During FY16, (refers to the period April 1 to March 31), PFEL achieved total operating income of Rs.37.36 crore (vis-a-vis Rs. 35.56 crore during FY15) and posted a net profit of Rs.0.59 crore (vis-à-vis net loss of Rs.0.32 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

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:

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of

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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/Non-fund-based-LT/ST	-	-	-	18.00	CARE BB-; Stable / CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (13-Apr-16)	1)CARE BB- (13-Apr-15)	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	18.00	CARE BB-; Stable / CARE A4	-	1)CARE BB- / CARE A4 (13-Apr-16)	1)CARE BB- / CARE A4 (13-Apr-15)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A4	-	1)CARE A4 (13-Apr-16)	1)CARE A4 (13-Apr-15)	-

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