Paras Defence and Space Technologies Limited (Revised)

May 06, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	18.00	**CARE BB-; Stable; / CARE A4 ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable; / A Four) ISSUER NOT COOPERATING***	Issuer not cooperating; Based on best available information
Short term Bank Facilities	10.00	**CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Based on best available information
Total	**28.00 (Rs. Twenty Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated April 02, 2018, placed the rating(s) of Paras Defence and Space Technologies Limited (PDSTL) under the 'issuer non-cooperating' category as Paras Defence and Space Technologies Limited had failed to provide information for monitoring of the rating. Paras Defence and Space Technologies Limited continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated April 09, 2019. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

Detailed description of the key rating drivers

At the time of last rating on April 02, 2018 the following were the rating strengths and weaknesses: (updated for the information available from MCA website):

Key rating Weakness

Modest scale of operations: The total operating income has significantly improved by 206.26% and stood to Rs.146.36 crore as on March 31, 2018 (vis-à-vis Rs.47.79 crore as on March 31, 2017) on account of receiving repeated orders from existing customers coupled with addition of new customers and amalgamation of Mechvac India Limited (subsidiary company) and Concept Shapers And Electronics Private Limited (associate company) of which financial are included in PDSTL during FY18. However the scale of operation stood modest with coupled with moderate tangible networth as on March 31, 2018. The modest scale of operations and low net-worth base restricts the company's financial flexibility in times of stress and deprives it from scale benefits.

Working capital intensive operation: Working capital intensity of PDSTL remained high owing to large amount of funds blocked in Inventory followed by debtors as reflected by high gross current asset days of over 171 days during FY18. Since Paras manufactures various kinds of products hence it has to maintain inventory as in many cases delivery time is short leading to funding requirements for inventory. The same was partly supported by credit period received from its suppliers however, despite the same utilization of working capital limits remained moderately high.

Moderate liquidity position: The liquidity position of the company remained moderate with moderate current ratio of 1.34x times as on March 31, 2018 owing to higher funds blocked in debtor's and quick ratio of 0.62x times on March 31, 2018. Further the investment in net working capital as a percentage of total capital employed stood at 33.94% as on March 31, 2018 whereas the net cash flow from operating activity stood positive during FY18, the unencumbered cash & bank balance was around Rs.3.44 crore as on March 31, 2018.

Exposure to high volatility in raw material prices: The clients of metal trading business are local traders and small engineering parts manufacturers. The company places back-to-back orders towards procurement of goods the moment an order is received from the customer. This hedges the risk of raw material price fluctuations to an extent.

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

**Issuer did not cooperate; Based on best available information*

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 defence and aeronautical sectors for more than four decades.
Healthy profitability margins: On account of amalgamation of MIL and CSEPL with PDSTL and due to better realization coupled with high value added products manufactured with specific applications; the operating margin of the company have significantly improved by 1200 bps and stood to 30.02% as on March 31, 2018 (vis-a-vis 18.02% as on March 31, 2017). Owing this the profit margins of the company also improved by 1103 bps and stood to 15.28% during FY18 (vis-à-vis 4.25% during FY17) despite increase in depreciation and interest cost.
Comfortable capital structure and debt coverage indicators: On account of amalgamation of MIL and CSEPL with PDSTL; the capital structure of the company has improved significantly and stood comfortable marked by debt to equity and overall gearing ratio stood at 0.65x times and 0.93x times respectively as on March 31, 2018 owing to infusion of equity shares coupled with accretion of profit to reserves resulting in improvement in net worth base of the company. Further owing to amalgamation the sales of PDSTL has increase significantly which led to improvement in cash accruals and this has been resulted in improvement in debt coverage ratio marked by total debt to gross cash accruals and interest coverage ratio has improved and stood at 2.16x times and 6.04x times respectively in FY18.

Analytical Approach: Standalone

Applicable Criteria
[Policy in respect of Non-cooperation by issuer]
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

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.
Further Mechvac India Limited (MIL) {subsidiary company} and Concept Shapers And Electronics Private Limited (CSEPL) {associate company} has amalgamated with Paras Defence and Space Technologies Limited (PDSTL).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	47.79	146.36
PBILDT	8.61	43.94
PAT	2.03	22.36
Overall gearing (times)	3.81	0.93
Interest coverage (times)	2.31	6.04

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
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 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 India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market

built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

**Issuer did not cooperate; Based on best available information*

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (13-Apr-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	18.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB- / CARE A4; ISSUER NOT COOPERATING* (02-Apr-18)	1)CARE BB-; Stable / CARE A4 (02-May-17)	1)CARE BB- / CARE A4 (13-Apr-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4; ISSUER NOT COOPERATING* (02-Apr-18)	1)CARE A4 (02-May-17)	1)CARE A4 (13-Apr-16)

**Issuer did not cooperate; Based on best available information*

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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