

June 16, 2025

Paras Defence & Space Technologies Limited: Ratings reaffirmed with change in outlook to Positive from Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Cash credit	39.00	39.00	[ICRA]A- (Positive); Reaffirmed with change in outlook to Positive from Stable
Long-term/Short-term – Non-fund based – Bank guarantee & letter of credit	157.75	157.75	[ICRA]A- (Positive)/[ICRA]A2+; Reaffirmed with change in outlook to Positive from Stable
Long-term – Fund-based – Overdraft	5.00	5.00	[ICRA]A- (Positive); Reaffirmed with change in outlook to Positive from Stable
Total	201.75	201.75	

*Instrument details are provided in Annexure I

Rationale

The revision in outlook to Positive on the long-term rating of Paras Defence & Space Technologies Limited (PDSTL) takes into account the expectation that the company will be able to sustain the increase in its operating margins to 26.7% in FY2025 from 21.2% in FY2024, driven by the rising share of the margin-accretive 'optics and optronics' segment, and an improvement in working capital intensity on the back of reduction in inventory days due to quicker delivery of periscopes and faster realisation of payments. This, coupled with the robust top line growth of 44% to Rs. 364.7 crore and a healthy order book position of Rs. 928.0 crore as on March 31, 2025 (translating to a book-bill ratio of 2.5 times of FY2025 OI) resulted in a substantial improvement in its financial profile. There has been a moderation in the company's reliance on short-term borrowings (debt levels of Rs. 24.0 crore in FY2025 from Rs. 66.0 crore in FY2024) owing to the aforementioned reasons and due to a greater availability of interest-free mobilisation advances. This led to an improvement in coverage indicators, with interest coverage improving to 14.7 times in FY2025 from 6.8 times in FY2024, while leverage indicators – TOL/TNW – remain comfortable at 0.3 times in FY2025 (FY2024: 0.4 times).

The ratings continue to favourably factor in the extensive experience of the management team with more than three decades of experience in designing, developing and manufacturing a wide range of engineering products and solutions for the defence and space sector in optics, heavy engineering and electronics. PDSTL's long presence in the sector has allowed it to establish strong relationships with its customers. The company has a strong management and execution team with several ex-employees of Bharat Electronics Limited (BEL), Department of Defence Research and Organisation (DRDO), among others.

The ratings, however, are constrained by the working capital-intensive nature of operations, which despite posting an improvement in FY2025, continues to remain high on an absolute basis on account of long receivables cycle and high inventory holding period. This is attributable to the need to maintain adequate stocking of raw materials to ensure uninterrupted production and avoid any disruptions in delivery schedules. The ratings are also constrained by the moderate scale of operations, coupled with client concentration risk with the top 5 clients accounting for ~76% of the pending order book as on March 31, 2025 and ~69% of revenues in FY2025. However, this is mitigated by the company's clientele being largely composed of Government entities with repeat orders. Going forward, PDSTL's ability to prudently manage its working capital intensity, while scaling up its revenues, with sustenance of its healthy operating margins and liquidity, will be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Healthy OB provides medium-term revenue visibility – The company reported fresh order inflows of Rs. 662.7 crore in FY2025, and a closing order book position of Rs. 928.0 crore (OB/OI ratio of 2.5 times of the OI in FY2025) providing medium-term revenue visibility.

Comfortable capital structure and healthy coverage indicators – The company's capital structure remains comfortable with TOL/TNW of 0.3 times as on March 31, 2025, supported by healthy accretion to reserves, coupled with equity infusion in the past and low debt levels. The interest coverage improved to 14.7 times in FY2025 (FY2024: 6.8 times) due to reduced dependence on external borrowings to fund its working capital. Going forward, ICRA expects the coverage indicators to remain comfortable, benefitting from the scale-up in operations, given the strong order pipeline.

Extensive experience of management team – PDSTL's promoters have more than three decades of experience in designing, developing and manufacturing a wide range of engineering products and solutions for the defence and space sector in the domain of optics, heavy engineering and electronics. Its long presence in the defence and space sector has helped to establish strong relationships with its customers as well as suppliers. It has developed a strong management and execution team comprising several ex-employees of BEL and DRDO, among others.

Credit challenges

Working capital-intensive nature of operations – The business is working capital intensive in nature with NWC/OI of 111.0% and 84.6% in FY2024 and FY2025, respectively, owing to the high inventory holding period and long receivables cycle. The inventory levels are high because of additional stocking of critical raw materials to avoid any disruption in delivery schedules and high work-in-progress due to the elongated manufacturing cycle. However, the working capital intensity improved in FY2025 on account of reduction in both debtor and inventory days enabled by quicker payment realisations and order deliveries for periscopes in FY2025. PDSTL has been able to manage its working capital cycle through extended credit period available through its suppliers and availing mobilisation advance for part orders, the quantum of which is expected to remain adequate going forward.

Moderate scale of operations – While the company reported a robust YoY revenue growth of 44% in FY2025, respectively, supported by healthy OB position and timely execution of orders, the scale of operations still remains moderate. Given the Government's thrust on 'Make in India' in the defence sector, PDSTL has been mainly catering to domestic demand. Driven by the healthy order book status, ICRA expects the company to sustain its revenue growth in FY2026.

High customer concentration risk, though largely mitigated by reputed customer base and repeat orders – The company faces client concentration risk with top five clients contributing to 76% of the total order book as on March 31, 2025 and top five clients accounting for ~69% of the revenue in FY2024. The client profile mostly comprises Government organisations with repeat orders received over the years, largely mitigating the counterparty credit risk. A major part of PDSTL's clientele included reputed government organisations, namely Laboratory for Electro-Optics Systems (a unit of ISRO), BEL, Instruments Research and Development Establishment (a unit of DRDO) and private companies like RRP S4E Innovation Private Limited and Unifab Engineering Project Private Limited. It has long-standing relationships with most of its clientele. PDSTL also exports to companies based in Israel, Singapore and USA.

Environmental and social risks

Environmental considerations – PDSTL is operating in the defence equipment manufacturing industry, which requires various raw materials and also entails sizeable energy and water requirements for running its multiple facilities. To safeguard the environment against the impact of its operations, and possible regulatory action for violation of applicable environmental laws, the company has tied up with State Pollution Control Board authorities for appropriately disposing/recycling solid hazardous waste at its manufacturing sites.

Social considerations – PDSTL is dependent on human capital and hence, retaining talent, maintaining healthy employee relations, as well as supplier ecosystem remains essential for disruption-free operations. Going forward, the company’s ability to manage risks related to safety in the areas of process, and occupational health, while developing safety leadership capabilities, will remain a key factor from the social consideration perspective.

Liquidity position: Adequate

PDSTL has adequate liquidity, with free cash balances of Rs. 34.5 crore and unencumbered FDs of Rs. 39.9 crore, amounting to free cash balances of ~Rs. 74.0 crore as on March 31, 2025. Further, its standalone fund-based facilities of Rs. 44.0 crore stand fully available as on March 31, 2025, providing an additional buffer to liquidity. Against this, the company has minimal long-term debt obligations and capex requirements for FY2026, which can be comfortably met through balance sheet liquidity and cash accruals generated during the year. While the utilisation of non-fund based limits of Rs. 291.0 crore stood at 91% in March 2025, a sizeable portion of ~Rs. 100.0 crore BGs are expected to be released in Q2 FY2026, which is likely to create an adequate buffer in the existing limits to bid for new projects in the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a significant growth in its overall scale of operations, along with an improvement in its working capital cycle, while maintaining its operating profitability and sustaining its liquidity position.

Negative factors – Pressure on PDSTL’s ratings could arise if lower-than-anticipated billing or a deterioration in the operating profitability or working capital cycle impacts the company’s liquidity position and/or coverage metrics on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated; the list of companies that are consolidated to arrive at the ratings are given in Annexure II

About the company

Set up in 1971 by Mr. Sharad Shah, PDSTL designs, develops and manufactures a wide range of engineering products and solutions for the defence and space sector in the domain of optics, heavy engineering and electronics. It has two manufacturing facilities – one in Ambarnath (Thane) and the other in Nerul (Navi Mumbai). Reputed government organisations, namely Laboratory for Electro Optics Systems (a unit of ISRO), BEL, Instruments Research and Development Establishment (a unit of DRDO), and private companies like FFS Industries Private Limited and SEC Industries Private Limited, form a major part of the company’s clientele. At present, its day-to-day operations are managed by Mr. Munjal Shah (son of Mr. Sharad Shah).

Key financial indicators (audited)

Consolidated	FY2024	FY2025
Operating income (Rs. crore)	253.6	364.7
PAT (Rs. crore)	30.1	61.5
OPBDIT/OI (%)	21.2%	26.7%
PAT/OI (%)	11.9%	16.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.2	0.2
Interest coverage (times)	6.8	14.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current (FY2026)		Chronology of rating history for the past 3 years					
			FY2026		FY2025		FY2024		FY2023	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long Term	39.00	June 16, 2025	[ICRA]A-(Positive)	Apr 05, 2024	[ICRA]A-(Negative)	-	-	Jan 27, 2023	[ICRA]A-(Stable)
			-	-	Nov 08, 2024	[ICRA]A-(Stable)				
Bank guarantee & LC	Long term/Short Term	157.75	June 16, 2025	[ICRA]A-(Positive)/[ICRA]A2+	Apr 05, 2024	[ICRA]A-(Negative)/[ICRA]A2+	-	-	Jan 27, 2023	[ICRA]A-(Stable)/[ICRA]A2+
			-	-	Nov 08, 2024	[ICRA]A-(Stable)/[ICRA]A2+				
Overdraft	Long Term	5.00	June 16, 2025	[ICRA]A-(Positive)	Apr 05, 2024	[ICRA]A-(Negative)	-	-	-	-
			-	-	Nov 08, 2024	[ICRA]A-(Stable)				

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Overdraft	Simple
Long-term/Short-term – Bank guarantee & letter of credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Cash credit	NA	NA	NA	39.00	[ICRA]A- (Positive)
NA	BG & LC	NA	NA	NA	157.75	[ICRA]A- (Positive)/ [ICRA]A2+
NA	Overdraft	NA	NA	NA	5.00	[ICRA]A- (Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
Paras Aerospace Pvt Ltd	60.00%	Full Consolidation
Paras Green Optics Pvt Ltd	100.00%	Full Consolidation
Paras Anti Drone Technologies Private Limited	55.00%	Full Consolidation
Ayatti Innovative Private Limited	58.02%	Full Consolidation
OPEL Technologies PTE Ltd	100.00%	Full Consolidation
Mechtech Thermal Private Limited	70.00%	Full consolidation
Quantico Technologies Private Limited	100.00%	Full consolidation
Krasny Paras Defence Technologies Private Limited	47.50%	Equity Method
Controp Paras Technologies Private Limited	30.00%	Equity Method

Source: Company

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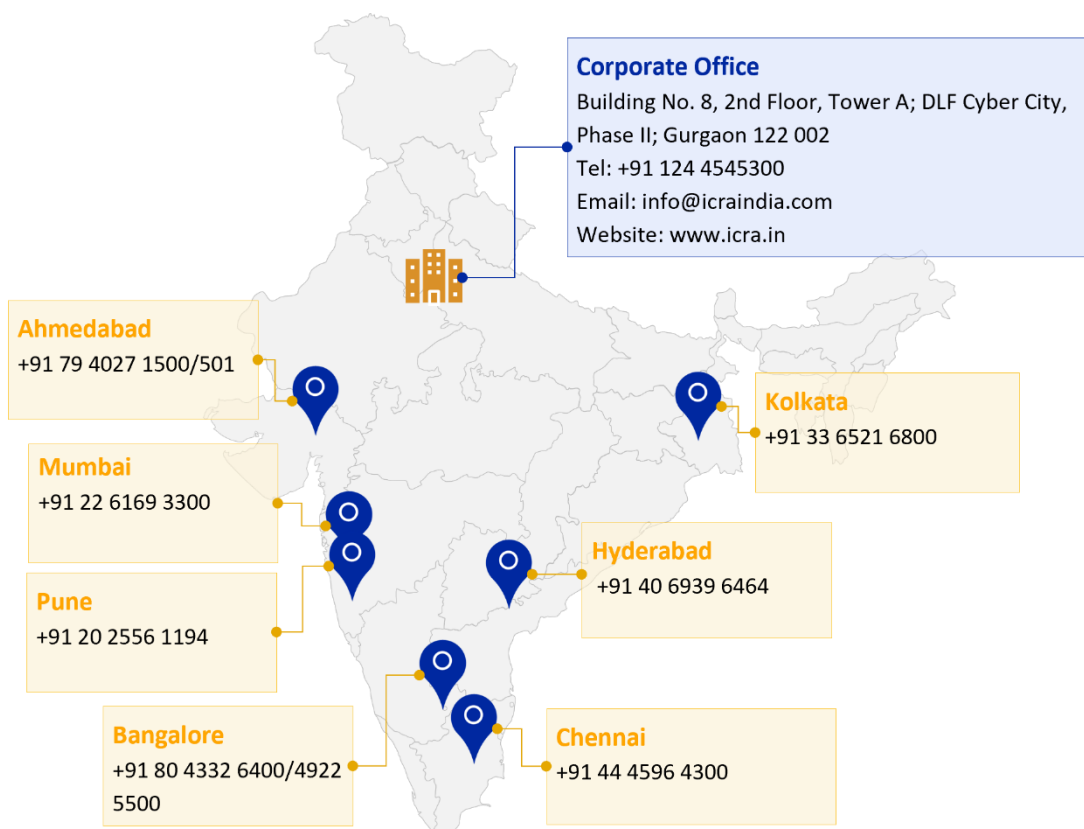
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