September 30, 2026

Paras Defence & Space Technologies Limited: Long-term rating upgraded to [ICRA]A (Stable) and outlook revised to Stable; short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial sector regulator#
Long-term – Fund-based – Cash credit	39.00	39.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive) and outlook revised to Stable from Positive	RBI
Long-term – Fund-based – Overdraft	5.00	5.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive) and outlook revised to Stable from Positive	RBI
Long-term/ Short-term – Non-fund based – Bank guarantee & letter of credit	157.75	286.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive); outlook revised to Stable from Positive/ [ICRA]A2+; reaffirmed and assigned for enhanced amount	RBI
Total	**201.75**	**330.00**		

**Instrument details are provided in Annexure I*

#SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI

Rationale

The rating upgrade for Paras Defence & Space Technologies Limited (PDSTL) factors in the sustained improvement in its scale of operations, driven by healthy order inflows and execution across its core defence programmes, while maintaining healthy profitability and a comfortable financial risk profile. The company reported a ~31% YoY growth in operating income (OI) to Rs. 476.8 crore in FY2026 (CAGR of ~27% for five-years ended FY2026), followed by a further growth of ~37% YoY in Q1 FY2027. With sustained order inflows, the company maintained a robust order book (OB) of ~Rs. 986 crore as on March 31, 2026, translating into an OB/OI ratio of 2.1 times (based on consolidated OI of FY2026), which provides a healthy medium-term revenue visibility. The improvement in earnings, coupled with steady cash accruals generation and low debt levels, strengthened the coverage indicators, with interest coverage improving to 18.4 times in FY2026 from 11.1 times in FY2025. The leverage profile remained healthy, with TOL/TNW steady at 0.4 times as on March 31, 2026 (0.4 times as on March 31, 2025), while Total Debt/OPBDITA improved to 0.2 times in FY2026 from 0.3 times in FY2025. Going forward, the company's financial profile is likely to remain comfortable, supported by sustained growth in earnings and low debt levels, which are likely to keep the leverage and coverage metrics healthy.

The ratings 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, remain constrained by the working capital-intensive nature of operations, which despite improvement in FY2026 (NWC[1]/OI reduced to ~80% in FY2026 from ~85% in FY2025 and ~111% in FY2024) continues to remain elevated due to the long receivables cycle and high inventory holding requirements. This is attributable to the need to maintain adequate

[1] *Net working capital*

stocking of raw materials to ensure uninterrupted production and avoid disruptions in delivery schedules, as well as the long execution, testing and customer acceptance cycles associated with certain defence and space programmes. The ratings are also constrained by the relatively moderate scale of operations relative to larger listed defence peers and moderate client concentration risk, with the top three customers accounting for ~41% of the unexecuted order book as on August 31, 2026. Nevertheless, this risk is mitigated by the company's clientele being largely composed of Government entities, defence PSUs and established private-sector defence players, resulting in a healthy track record of repeat orders. The Government's thrust on 'Make in India' in the defence sector and the strong credit profile of its principal customers augur well for PDSTL. Going forward, PDSTL's ability to further improve its working capital intensity while sustaining growth in revenues, profitability and liquidity, along with any material increase in investments towards subsidiaries and strategic initiatives, will remain the key rating monitorables.

ICRA notes that PDSTL has entered a memorandum of understanding (MoU) with the Madhya Pradesh State Electronics Development Corporation (MPSeDC) for setting up a greenfield advanced IC packaging facility in Madhya Pradesh under the India Semiconductor Mission (ISM) 2.0 through its subsidiary, Paras Semiconductors Private Limited (PSPL). ICRA has been given to understand that the proposed capex is expected to be funded through equity raised at PSPL, along with Government grants/subsidies, with PDSTL's exposure towards the project likely to remain limited to ~Rs. 25 crore. PSPL, thus is expected to operate as a self-reliant, fully independent entity with no dependency on PDSTL. While the project remains in the nascent stage, any change in strategy of materially higher-than-envisaged investment commitments or funding support towards the semiconductor venture in the near to medium term will be credit negative for PDSTL and therefore, remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that PDSTL will benefit from its healthy order book, supporting sustained growth in earnings, while maintaining a prudent capital structure and comfortable debt metrics.

Key rating drivers and their description

Credit strengths

Healthy OB provides medium-term revenue visibility – The company reported order inflows of ~Rs. 534 crore in FY2026 and maintained a robust order book position of ~Rs. 986 crore as on March 31, 2026 (OB/OI ratio of ~2.1 times of FY2026 OI). The OB provides healthy medium-term revenue visibility, with an average execution tenure of 1.0-1.5 years. The order book stood at ~Rs. 924 crore as on August 31, 2026, with orders from multiple defence and aerospace programmes, including optics and optronics, defence electronics, directed energy systems, tank electronics and other defence engineering solutions. While the order book exhibits some concentration towards the defence engineering (~70%) and optics and optronics (~30%) segments, it remains diversified across multiple defence programmes and products.

Comfortable capital structure and healthy coverage indicators – The company's capital structure remained comfortable with TOL/TNW of 0.4 times as on March 31, 2026, supported by healthy accretion to reserves and low debt levels. The coverage indicators also improved, with interest coverage increasing to 18.4 times in FY2026 from 11.1 times in FY2025 and Total Debt/OPBDITA improving to 0.2 times from 0.3 times over the same period. Going forward, ICRA expects the capital structure to remain comfortable and the coverage indicators to remain healthy, supported by steady cash accrual generation and limited reliance on debt funding.

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 across optics and optronics, defence engineering and defence electronics. Its long presence in the defence and space sector has helped to establish strong relationships with customers as well as suppliers. The company has developed a strong management and execution team comprising several ex-employees of BEL, DRDO and other defence-sector organisations.

Credit challenges

Working capital-intensive nature of operations – The business remains working capital intensive in nature, with NWC/OI of 79.6% in FY2026, notwithstanding the improvement from 85.2% in FY2025 and 111.2% in FY2024. The working capital intensity remains elevated owing to the high inventory holding period and elongated receivables cycle. The inventory levels remain high on account of stocking of critical raw materials to avoid disruptions in delivery schedules and high work-in-progress inventory associated with the relatively long manufacturing cycle. Further, collection timelines for certain developmental defence and space programmes remain elongated due to qualification trials, testing procedures and customer acceptance milestones. PDSTL has been able to manage its working capital cycle through the extended credit period available from suppliers and availing mobilisation advances for a part of its orders, the quantum of which is expected to remain adequate going forward. Nevertheless, the company's ability to further improve its working capital intensity remains a key monitorable.

Relatively moderate scale of operations – While the company reported a steady YoY revenue growth of 31% in FY2026 and ~37% in Q1 FY2027, supported by healthy order execution and a robust order book position, the scale of operations remains moderate relative to larger listed defence entities. Given the Government's continued thrust on indigenisation and the 'Make in India' initiative in the defence sector, PDSTL is expected to capitalise on the opportunities available in the domestic defence and aerospace space, to scale up its business, and would remain a rating monitorable.

Customer concentration risk persists; though largely mitigated by the reputed customer base and repeat orders – The company faces moderate customer concentration risk, with top three customers accounting for ~41% of the unexecuted order book as on August 31, 2026. Nevertheless, the counterparty credit risk remains primarily mitigated by its diversified presence across Government organisations, defence PSUs and established private-sector defence players, which have supported a healthy track record of repeat orders over the years. PDSTL's key customers include organisations such as BEL, DRDO and ISRO entities, among others. The company has longstanding relationships with most of its customers and derives a part of its revenues from exports to the overseas markets.

Environmental and social risks

Environmental considerations – PDSTL is operating in the defence equipment manufacturing industry, which requires various raw materials and 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 complies with all the applicable conditions, approvals and procedures prescribed by the 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. 76.3 crore as on March 31, 2026. Further, its standalone fund-based facilities of Rs. 44.0 crore remained fully available as on March 31, 2026, providing an additional buffer to liquidity. Against this, the company has modest debt repayment obligations and planned capex requirements, which are expected to be comfortably met through balance-sheet liquidity and cash accruals. Further, the planned investments towards subsidiaries and strategic initiatives are likely to remain manageable relative to its liquidity position and internal cash generation.

Rating sensitivities

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

Negative factors – Pressure on PDSTL's ratings could arise if a material decline in revenue 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. Any higher-than-expected investments towards Group companies would also be a credit negative.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PDSTL, its subsidiaries and associates (Refer Annexure II). For PSPL, ICRA has undertaken limited consolidation, factoring in the expected funding requirements, limited to initial commitment.

About the company

Setup in 1971 by Mr. Sharad Shah, Paras Defence & Space Technologies Limited (PDSTL) is engaged in designing, developing, and manufacturing of a wide range of engineering products and solutions for defence and space sector in the domain of optics, heavy engineering and electronics. It has two manufacturing facilities, one located in Ambernath in Thane and the other in Nerul in Navi Mumbai. Its major clients are reputed government organisations namely Laboratory for Electro-Optics Systems (a unit of ISRO), Bharat Electronics Limited (BEL), Instruments Research and Development Establishment (a unit of DRDO) and private companies like FFS Industries Private Limited and SEC Industries Private Limited. At present, the company's day-to-day operations are managed by Mr. Munjal Shah (son of Mr. Sharad Shah).

Key financial indicators (audited)

Consolidated	FY2025	FY2026	Q1 FY2027
Operating income	365.0	476.8	127.9
PAT	61.5	89.5	20.7
OPBDIT/OI (%)	27.6%	25.7%	24.9%
PAT/OI (%)	16.8%	18.8%	16.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	-
Total debt/OPBDIT (times)	0.3	0.2	-
Interest coverage (times)	11.1	18.4	23.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; OI: Operating income; 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	Current rating (FY2027)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2027		FY2026		FY2025		FY2024	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long Term	39.00	Sept 30, 2026	[ICRA]A (Stable)	June 16, 2025	[ICRA]A-(Positive)	Apr 05, 2024	[ICRA]A-(Negative)	-	-
			-	-	-	-	Nov 08, 2024	[ICRA]A-(Stable)	-	-
Bank guarantee & Letter of credit	Long term/Short Term	286.00	Sept 30, 2026	[ICRA]A (Stable)/ [ICRA]A2+	June 16, 2025	[ICRA]A-(Positive)/ [ICRA]A2+	Apr 05, 2024	[ICRA]A-(Negative)/ [ICRA]A2+	-	-
			-	-	-	-	Nov 08, 2024	[ICRA]A-(Stable)/ [ICRA]A2+	-	-
Overdraft	Long Term	5.00	Sept 30, 2026	[ICRA]A (Stable)	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 – Non-fund based – Bank guarantee & letter of credit	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	Financial sector regulator#
NA	**Cash credit**	NA	NA	NA	39.00	[ICRA]A (Stable)	RBI
NA	**BG & LC**	NA	NA	NA	286.00	[ICRA]A (Stable)/ [ICRA]A2+	RBI
NA	**Overdraft**	NA	NA	NA	5.00	[ICRA]A (Stable)	RBI

Source: Company

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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 Anti Drone Technologies Private Limited	55.00%	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
Paras Heven Advanced Drones Private Limited	51.00%	Full Consolidation
Paras Semiconductors Private Limited^	70.00%	Limited Consolidation
Paras Avionics Private Limited	60.00%	Full Consolidation
Krasny Paras Defence Technologies Private Limited*	47.50%	Equity Method
Controp Paras Technologies Private Limited	30.00%	Equity Method
Himanshi Thermal Solutions Private Limited	49.00%	Equity Method

Source: Company, ICRA Research;

*^Limited consolidation has been adopted to account for the pre-defined equity commitment towards PSPL, as no incremental funding support is envisaged from PDSTL, and is expected to operate as a fully self-reliant and independent entity; *Divestment is approved as of August 2026, and it is expected to be completed by December 2026*

ANALYST CONTACTS

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Mrinal Jain
+91 124 4545 845
Mrinal.jain@icraindia.com

Kasak Maheshwari
+91 22 6169 3349
kasak.maheshwari@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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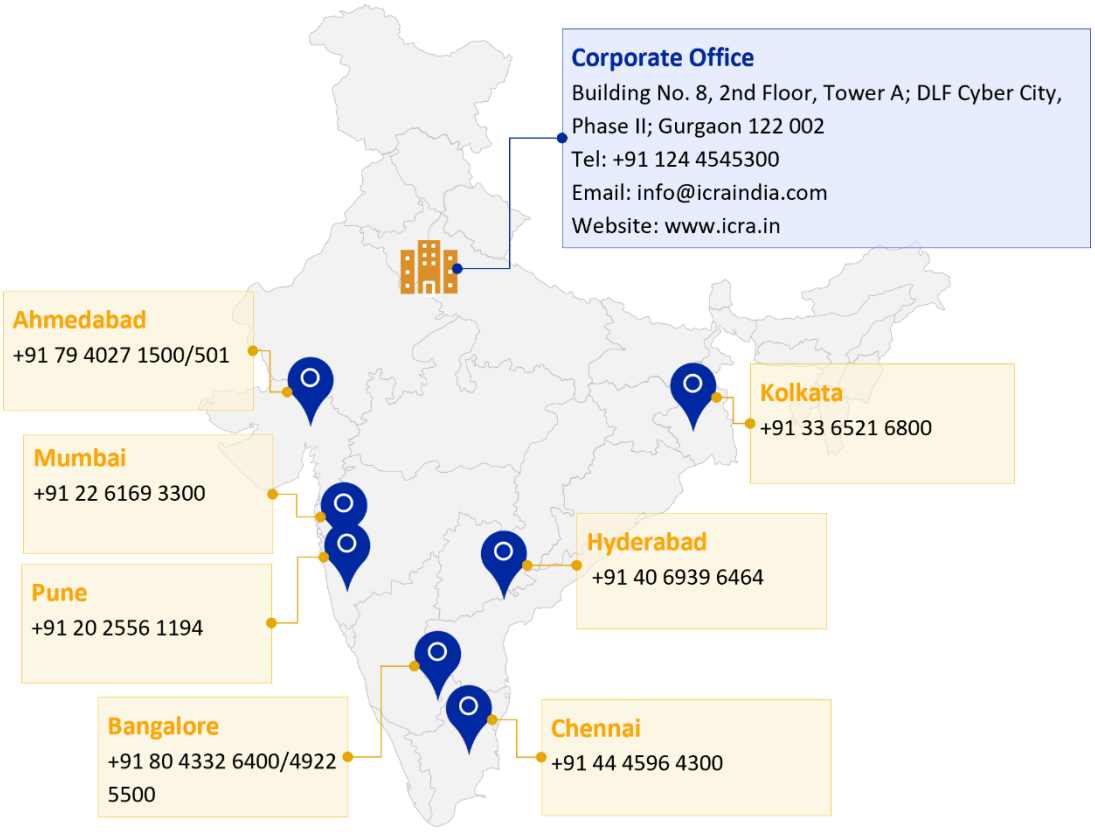
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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