



Press Release

Priti Construction

June 29, 2024

Ratings

Instrument Facility /	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Short Term Facilities	15.00	IVR A4 (IVR A four)	IVR A4 (IVR A four)	Reaffirmed	Simple
Total	15.00 (INR Fifteen crore only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3

Detailed Rationale

The reaffirmation of the short-term rating assigned to the bank facilities of Priti Construction (PC) derives comfort from its experienced partners with long operational track record, moderate order book giving visibility to revenue in the medium term though exposed to geographical concentration risk, comfortable capital structure and debt coverage indicators. These rating strengths are partially offset by small scale of operation, profitability susceptible to volatile raw material prices, moderate client and geographical concentration risks, and tender driven nature of business in highly fragmented, competitive operating scenario and partnership nature of constitution.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in debt protection metrics
- Timely and proper execution of existing order book and diversification in regional presence

Downward Factors

- Decline in the operating income or profitability impacting the debt coverage indicators on a sustained basis
- Moderation in the capital structure with deterioration in the overall gearing ratio.
- Elongation in the operating cycle adversely impacting the liquidity position

List of Key Rating Drivers with Detailed Description



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Key Rating Strengths

Experienced partners with long operational track record

Priti Construction, set up in 1977 by members of the Shah family, having more than two decades of experience in this sector. Further, the firm has long track record of operations in the civil construction business.

Moderate order book giving visibility to revenue in the medium term though exposed to geographical concentration risk

The firm has only three orders from MCGM and the unexecuted order book position is Rs.152.21 crore as on April 30, 2024 which is expected to be completed by January 2027 indicating revenue visibility in projected years.

Comfortable capital structure and debt coverage indicators

The capital structure of the firm remained comfortable marked by overall gearing improved and stood to 0.09x as on March 31, 2023 (refers to period April 1st, 2022, to Mar 31, 2023) from 0.37x as on March 31, 2022 (refers to period April 1st, 2021, to Mar 31, 2022) on account of withdrawal of unsecured loan. The overall indebtedness of the company marked by TOL/ TNW deteriorated to 2.85x as on March 31, 2023 as against 2.41x as on March 31, 2022 due to withdrawal of unsecured loan that led to decline in Adjusted Tangible Net Worth. Further Debt to equity ratio improved from 0.23x as on March 31, 2022 to 0.04x in FY23 as on March 31, 2023. Debt protection metrics marked by interest coverage ratio deteriorated to 2.13x in FY23 as against 3.62x in FY22 due to decrease in operating profit in FY23. However, Total Debt/ EBITDA improved to 0.35x in FY23 from 0.78x in FY22. Also, Total Debt/ NCA years improved to 0.81x in FY23 as against 1.49x in FY22. This improvement is due to a reduction in unsecured loans. Further, Debt service coverage ratio stood comfortable at 3.01x in FY23.

Key Rating Weaknesses



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Small scale of operation

The operations of the firm remained small despite its long track record of operations. The firm registered a y-o-y growth of ~26.79% in its total operating income from Rs. 17.59 crore in FY23 to Rs. 22.30 crore in FY24(Prov.) (refers to period April 1st, 2023, to Mar 31, 2024) driven by better execution of projects. EBITDA margin has improved to 22.29% in FY24(Prov.) against 18.83% in FY23 driven by decrease in overhead cost during the period. The total operating income of the firm stood small at Rs. 17.48 in FY23 crore decreased from Rs.26.91 crore in FY22.

Profitability susceptible to volatile raw material prices

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability of the group remains susceptible to fluctuation in input prices. However, a presence of escalation clause in most of the contracts provides comfort.

Moderate client and geographical concentration risks

The company has moderate client concentration risk, with the majority of revenues and order book contributed by few clients. The company participates in tenders and executes its projects mainly in Maharashtra. However, the company exposed to geographical concentration risk..

Tender driven nature of business in highly fragmented & competitive operating scenario

The domestic infrastructure works sector is highly crowded with presence of many players with varied statures & capabilities due to which profitability margins come under pressure. Further, the company receives its work orders from government departments through tenders floated by the departments. Economic vulnerability in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company is the sector.

Partnership nature of constitution

Given the nature of constitution as a partnership firm, the entities remain exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners



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Analytical Approach: Standalone.

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

[Complexity Level of Rated Instruments/Facilities](#)

[Default recognition policy](#)

Liquidity – Adequate

The liquidity profile of PC is expected to remain adequate marked by its expected adequate cash accrual in the range of Rs. 2.56 - Rs. 4.76 crore during FY24-27 against its minimum repayment obligation. The company has adequate gearing headroom for additional debt in future with an overall gearing of 0.04x as on March 31, 2023. Further the absence of any capex by the firm in the near term provides additional comfort.

About the Firm

Priti Construction, set up in 1977, is promoted by Ms Diwaliben R Shah and Mr Chirag Shah, who has more than a decade of experience in construction business. The firm is mainly engaged in civil construction projects predominantly related to road construction, storm water drainage, and hydraulic engineering for government bodies.

Financials (Standalone):

For the year ended/ As on*	(Rs. crore)		
	31-03-2022	31-03-2023	31-03-2024
	Audited	Audited	Provisional
Total Operating Income	27.15	17.59	22.30
EBITDA	7.48	3.31	4.97
PAT	3.87	1.43	2.54
Total Debt	5.83	1.17	-
Tangible Net Worth	25.37	26.78	-
EBITDA Margin (%)	27.55	18.83	22.29
PAT Margin (%)	13.88	7.79	10.98
Overall Gearing Ratio (x)	0.37	0.09	-
Interest Coverage (x)	3.62	2.13	2.40



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** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (May 02, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (February 4, 2022)
1.	Bank Guarantee	Short Term	15.00	IVR A4	IVR A4	-	IVR A4

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.



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Annexure 1: Instrument/Facility Details

Name of Facility	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Bank Guarantee	-	-	-	-	15.00	IVR A4

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Priti-Construction-june24.pdf>

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

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.