



## Press Release

### Priti Construction

May 02, 2023

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Short Term Bank Facilities	15.00	IVR A4 (IVR A four)	Reaffirmed	Simple
Total	<b>15.00</b> (INR Fifteen crore only)			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation of the short term rating assigned to the bank facilities of Priti Construction (PC) continues to derive comfort from its experienced promoters with proven project execution capability. Moreover, the rating also considers improvement in the topline and profitability metrics in FY22 and FY23 (prov.), moderate order book reflecting satisfactory near to medium-term revenue visibility and comfortable capital structure with satisfactory debt protection metrics. However, these rating strengths continues to remain partially offset by its exposure to geographical concentration risk, small scale of operation, susceptibility of profitability to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector and its partnership nature of constitution.

#### Key Rating Sensitivities:

#### Upward Factors

- Growth in scale of business with improvement in revenue on a sustained basis.
- Improvement in profitability metrics thereby leading to improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure with improvement in the debt protection metrics.

#### Downward Factors

- Moderation in revenue and/or moderation in profitability impacting the gross cash accruals on a sustained basis.



## Press Release

- Moderation in the capital structure with overall gearing ratio deteriorated to over 1.5x and deterioration in interest coverage ratio to below 2.5x.
- Stretch in timely receipts of contract proceeds impacting the liquidity leading to deterioration in working capital management and resulting in heavy utilisation of the existing limits.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Long track record of operations and experienced partners**

Priti Construction, set up in 1996 by members of the Shah family, possess more than two decades of experience in this sector. Further, the firm has long track record of operations in the civil construction business.

- **Proven project execution capability**

Over the years, the firm has successfully completed many projects across the country for various medium to large government companies. In order to manage the projects in a better way and to grow in a balanced way, the firm has a policy to take up short to medium term projects (1-2 years) and has handled limited number of projects at a time to ensure timely completion. Earlier, the firm was blacklisted by MRMC, however, the same has been resolved and blacklisting has been removed.

- **Improvement in the profitability indicators**

The topline of the firm increased to 26.91 crore with y-o-y increase of ~34% over FY21, the increase was on account of rise in the contract received as a result of the initiative of infrastructure development by the Government. EBIDTA and PAT grew by ~50 and ~63%. The rise in the EBIDTA is driven by decrease in the overhead expenses mainly on account of reduction in the penalty imposed by BMC on the firm. EBIDTA margin increased marginally to 27.39% in FY22 from 24.69% in FY21. Also, the PAT margin increased to 21.43% to FY22 from 17.57% in FY21. Further the firm has earned a topline of Rs.17.48 crore in FY23 (prov.), however, the EBIDTA and PAT margin though declined remained comfortable at 26.41x and 18.75x in FY23 (prov.).



## Press Release

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

The firm has only one work order in hand from M.C.G.M (Municipal Corporation of Greater Mumbai) that is expected to be completed by the month of May 2023 before the start of the rainy season. The value of unexecuted order book as on March 31, 2023 is 47.26 crore i.e. to be by May 2024 indicating medium term revenue visibility.

- **Comfortable capital structure with satisfactory debt protection metrics**

The capital structure of the company firm remained comfortable marked by overall gearing 0.23x as on March 31, 2022 and improved from 0.43x in FY21 on account of reduction in unsecured loan. Total indebtedness of the company remained comfortable at 0.54x as on March 31, 2022 and improved from 0.59x as on March 31, 2021. However, considering the unsecured loan of Rs.43 lakh from the related parties and the investment of Rs.34.05 crore made in associate companies TOL/TNW stood at 1.49x as on March 31, 2022 and improved from 1.73x as on March 31, 2021 due to accretion of networth to the profit. The debt protection metrics remained comfortable and increased to 3.57x in FY22 from 2.40x in FY21.

Further, Total Debt/GCA improved to 0.98x in FY22 from 2.64 years in FY21 mainly due to higher cash accruals.

### Key Rating Weaknesses

- **Small scale of operation**

The operations of the firm remained small despite its long track record of operations. The total operating income of the firm stood small at Rs. 26.91 crore though improved from Rs.19.84 crore in FY21. Small scale operations restricts the financial flexibility of the firm to an extent. The firm has achieved a turnover of Rs.17.48 crore in FY23 (provisional).

- **Risk associated with viability of the business due to lack of work order**

The firm has only one work order in hand from M.C.G.M (Municipal Corporation of Greater Mumbai) that is expected to be completed by the month of May 2023 before the start of the rainy season. The value of unexecuted order book as on March 31, 2023 is 47.26 crore i.e. to



## Press Release

be completed by May 2024 indicating short term revenue visibility. Further the firm has some orders in pipeline which are expected to be received by the year end.

- **Susceptibility of profitability to volatile input 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 firm remains susceptible to fluctuation in input prices. However, a presence of escalation clause in most of the contracts provides significant comfort.

- **Tender driven nature of business in highly fragmented & competitive construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the firm's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

- **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.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Infrastructure Companies](#)

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

[Criteria for assigning rating outlook](#)



## Press Release

### **Liquidity –Adequate**

The liquidity position of the firm is expected to remain adequate in the near term marked by its expected adequate cash accruals as against its nil debt repayment obligations. The firm is expecting to generate cash accruals to the tune of ~ Rs. 2.63 - Rs. 3.30 crore as against its nil debt repayment obligations during FY23-25. The company has adequate gearing headroom for additional debt in future with an overall gearing of 0.23x as on March 31, 2022. 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):**

	(Rs. crore)		
For the year ended* / As on	31.03.2021	31.03.2022	31.03.2023
	Audited	Audited	Provisional
Total Operating Income	19.84	26.91	17.48
EBIDTA	4.90	7.37	4.62
PAT	3.63	5.92	3.45
Total Debt	9.65	5.83	-
Tangible Net Worth	22.35	25.37	-
Adjusted Tangible Net Worth	14.70	15.68	-
EBDITA Margin (%)	24.69	27.39	26.41
PAT Margin (%)	17.57	21.43	18.75
Overall Gearing Ratio (x)	0.43	0.23	-

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**





## Press Release

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (February 4, 2022)	Date(s) & Rating(s) assigned in 2020-21 (November 5, 2020)
1.	Bank Guarantee	Short Term	15.00	IVR A4	-	IVR A4	IVR A4+

### Name and Contact Details of the Rating Analyst:

Name: Preety Jalan Tel: (033)- 46022266 Email: <a href="mailto:preety.jalan@infomerics.com">preety.jalan@infomerics.com</a>	Name: Sandeep Khaitan Tel: (033)- 46022266 Email: <a href="mailto:Sandeep.khaitan@infomerics.com">Sandeep.khaitan@infomerics.com</a>
---	--

### About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit [www.infomerics.com](http://www.infomerics.com)

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to



## Press Release

buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

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

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Len-PritiConstruction-may23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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](http://www.infomerics.com).