

Paliya Construction Kailarash

September 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.00	CARE BB; Stable	Assigned
Long Term / Short Term Bank Facilities	18.00	CARE BB; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Paliya Construction Kailarash (PCK) remained constrained on account of moderate profitability, capital structure and debt coverage indicators along with stretched liquidity position. The ratings further remained constrained due to geographically concentrated revenue and order book, tender based nature of operations, presence in intensely competitive and fragmented construction industry with exposure of profit margins to fluctuation in raw material prices and constitution of PCK as a partnership firm.

The above ratings derive strength from experience of promoters in construction sector, growing scale of operations and comfortable order book position providing revenue visibility for short to medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by Total operating income (TOI) above ₹150 crores with PBILDT margin above 6% on sustained basis.
- Sustaining order book to TOI ratio more than 2x.
- Improvement in capital structure with an overall gearing below 1.5x.

Negative factors

- Decline in TOI below ₹50 crore along with PBILDT margin below 4%.
- Further deterioration in capital structure or debt coverage indicators from present level.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that PCK will continue to derive benefit from its experienced promoters and well-established operational track record in the construction industry and comfortable order book position reflecting good revenue visibility in near to medium term.

Detailed description of key rating drivers:

Key weaknesses

Moderate capital structure and debt coverage indicators

The capital structure remained moderate as marked by an overall gearing ratio of 2x as on March 31, 2024 as against below unity overall gearing in past years. The deterioration in overall gearing is due to increase in working capital requirement with increasing scale of operations. The utilization of working capital limits and outstanding unsecured loans remained higher as on balance sheet date.

The debt coverage indicators also remained moderate as marked by interest coverage ratio of 4.29x in FY24 (Provisional, FY refers to period xxx) (2.09x in FY23) with improvement in operating profits. Total debt to Gross cash accruals (TDGCA) remained high at 9.58x as on March 31, 2024 (9.01x as on March 31, 2023) mainly due to high debt level.

Geographically concentrated revenue profile and order book

Over the years, PCK has concentrated presence with all the orders from single state. The orderbook of the firm also remained concentrated to regions in and around the state of Madhya Pradesh only, leading to a high concentration risk. Geographical concentration of the order book exposes PCK to any adverse changes in the political environment or policy matters of the state and would affect the projects at large.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Tender driven nature of operations

The business of PCK is a tender driven in nature and the operating margins primarily depend upon the rates quoted at the time of bidding and the same vary depending on the nature & size of the project after gauging the level of competition prevailing at the time of bidding. The tenure of the project is usually between 12-36 months and varies as per the size and volume of the contract. Moreover, the availability of tenders is mainly dependent on the budgetary fund allocations.

Presence in intensely competitive and fragmented construction industry with exposure of profit margins to fluctuation in raw material prices

PCK is operating in an intensely competitive construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies, these projects are lucrative for all the contractors and hence are highly competitive. Nevertheless, aggressive bidding by the firm or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on the margins. Further, considering execution period of orders awarded to PCK usually ranges from 12- 36 months, its profitability remains susceptible to fluctuations in the input prices. However, presence of price escalation clause in majority of contracts mitigates the risk to a certain extent.

Constitution as a partnership firm

PCK being a partnership firm, inherently carries the risk of capital withdrawal by partners during personal contingencies, potentially eroding the capital base and adversely affecting the capital structure. Furthermore, partnership entities have restricted access to external borrowing as credit worthiness of partner would be the key factors affecting credit decision for the lenders.

Key strengths

Experienced promoters

PCK is promoted by Morena (MP) -based Paliya family & is currently managed by Mr. Anoop Sharma and Mr. Navneet Sharma (sons of founder of PCK- Mr. Dwarika Prasad Paliya) who possesses experience of around one decade in construction business, looks after the day-to-day operations of the firm. PCK executes small to medium size projects for various government departments since 2007 and has established relationship with its customers and suppliers.

Growing scale of operations albeit moderate profitability margins

The scale of operations as marked by TOI reported growth of more than two folds in FY24 with execution of newly allotted tenders. TOI of PCK stood at ₹91.76 crore during FY24 as against ₹38.32 crore for FY23 mainly owing to bagging of high value orders and execution of 7 orders of CM rise school construction. Despite increase in TOI, the profitability margins declined to 5.84% in FY24 from 6.56% in FY23 due to increase in material costs. The GCA level increased and remained at ₹2.63 crore during FY24 from ₹1.13 crore during FY23 with increase in scale of operations.

Comfortable orderbook position indicating revenue visibility in short- medium term; albeit limited counter party credit risk

PCK has on hand orders of ₹237.90 crore as on August 25, 2024, translating into comfortable orderbook to TOI ratio of 2.59x for FY24. With major contracts to be executed within time span of 12-36 months, the orderbook provides revenue visibility in short to medium term. Further, entire orders of PCK are from Public Works Department leading to low counterparty credit risk.

Liquidity: Stretched

Liquidity remained stretched marked by higher utilisation of working capital limits and negative cash flow from operations. Utilization of fund based and non-fund based working capital limits remained high at around 70% and 80% respectively during last 12 months ending August 31, 2024. It reported negative cash flow from operation at ₹6.73 crore for FY24 as against positive ₹1.21 crore for FY23 mainly due to increase in the inventories. However, the GCA level remained adequate at ₹2.63 crore in FY24 as against expected debt repayments of ₹1.50 crore in FY25. Working capital cycle remained at 50 days in FY24 (55 days in FY23). The current ratio and quick ratio remained at 1.35 times (PY:1.03 times) and 1.08 times (0.85 times) respectively for FY24.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Gwalior (Madhya Pradesh) based Paliya Construction Kailarash (PCK) was formed in 2007 by Mr. Dwarika Prasad Paliya, Mr. Anoop Sharma and Mr. Suresh Upadhyay. In June 2015, Mr. Suresh Upadhyay retired from the partnership firm and new partners Mr. Navneet Sharma and Mrs. Bandana Sharma admitted since April 2019. PCK is registered contractor with Public Works Department, Madhya Pradesh (PWD). Firm is engaged in construction of various infrastructure space projects announced by Madhya Pradesh State government such as hospitals, schools, hostels, residential units under housing board schemes etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	38.32	91.76
PBILDT	2.51	5.36
PAT	0.81	1.97
Overall gearing (times)	0.98	2.01
Interest coverage (times)	2.04	4.29

A: Audited P: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	12.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	18.00	CARE BB; Stable / CARE A4

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Working Capital Limits	LT	12.00	CARE BB; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	18.00	CARE BB; Stable / CARE A4				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities- Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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