

May 15, 2015

Facilities	Amount (Rs. Crore)	Ratings
Secured Overdraft	3.30	SMERA BB/Stable (Assigned)
Bank Guarantee	6.00	SMERA A4+ (Assigned)

SMERA has assigned ratings of '**SMERA BB**' (read as **SMERA double B**) and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.9.30 crore bank facilities of P P Raju & Company (PPRC). The outlook is '**Stable**'. The ratings are constrained by the firm's small-scale operations and tender-based business. The ratings are also constrained by the susceptibility of the firm's profit margins to volatility in raw material prices. The ratings note that the firm's financial profile is susceptible to withdrawal of capital. However, the ratings derive comfort from the firm's established operations, comfortable debt protection metrics and healthy order book position. The ratings also factor in benefits of the firm's registration (as 'Special Class' civil contractor) with the Andhra Pradesh Government.

PPRC, established in 1995, is a Hyderabad-based partnership firm engaged in providing civil construction services. PPRC has small-scale operations with revenues of Rs.21.32 crore in FY2013-14 (refers to financial year, April 01 to March 31). The firm is highly dependent on tender-based contracts procured through an intensely competitive bidding process. PPRC's profit margins are exposed to volatility in raw material prices. The firm's financial profile is susceptible to withdrawal of capital by partners.

PPRC benefits from its experienced management. Mr. P. Peddi Raju, partner of PPRC, has around two decades of experience in the civil construction industry. PPRC's comfortable debt protection metrics are reflected in gearing (debt-to-capital ratio) of 0.66 times as on March 31, 2014 and interest coverage ratio of 2.34 times in FY2013-14. The firm is entitled to bid for large contracts on account of its 'Special Class (Civil)' registration with Andhra Pradesh Government.

Outlook: Stable

SMERA believes PPRC will maintain a stable business risk profile over the medium term. The outlook may be revised to 'Positive' in case the firm registers strong growth in scale of operations while maintaining comfortable profit margins. The outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile and liquidity position.

About the firm

PPRC was established as a proprietorship concern in 1995. The firm was converted into a partnership entity in 2003. PPRC undertakes civil construction work for government bodies and private contractors. The overall operations of the firm are managed by Mr. P. Peddi Raju.

For FY2013-14, PPRC reported net profit of Rs.0.87 crore on operating income of Rs.21.32 crore, as compared with net profit of Rs.1.31 crore on operating income of Rs.28.79 crore in FY2012-13. The firm's capital stood at Rs.4.15 crore as on March 31, 2014, as compared with Rs.4.29 crore a year earlier.

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SMERA RATINGS LIMITED

P P Raju & Company (PPRC)

Rating Rationale

Contact List:

Media / Business Development	Analytical Contacts	Rating Desk
Antony Jose Vice President – Business Development, Mid Corporate Tel: +91-22-6714 1191 Cell: +91 98208 02479 Email: antony.jose@smera.in	Shripad Nande Manager – Corporate Ratings Tel: +91-22-6714 1329 Email: shripad.nande@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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