

Press Release

P Dasaratharama Reddy

October 01, 2019

Rating Upgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 27.00 Cr.
Long Term Rating	ACUITE BB+/ Stable (Upgraded from ACUITE BB)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 27.00 crore bank facilities of P. Dasaratharama Reddy (PDR). The outlook is '**Stable**'.

The rating upgrade factors in efficient working capital management coupled with healthy financial risk profile and moderate revenues. The rating also factors in experienced management. However, the rating continues to factor in revenue concentration, and tender based business.

Bengaluru-based, P. Dasarathama Reddy (PDR) is a partnership firm established in 1998 by Mr. Krishna Reddy, Mrs. Bhavani and Mr. Dinesh Reddy. PDR is engaged in execution of civil construction projects such as canals, roads and bridges mostly for government departments mainly to Cauvery Neeravari Nigam Limited in Karnataka and is operating as a class I civil contractor.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of PDR to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

PDR was established in 1998 and has a long track record in civil construction business. The promoter, Mr. Krishna Reddy, has experience of around two decades in the similar line of business.

- **Healthy financial risk profile**

PDR's financial risk profile is healthy, marked by a moderate network, healthy gearing and healthy debt protection metrics.

PDR's network is moderate at around Rs. 16.58 crore as on March 31, 2019 (provisional). The network levels have, more or less, remained stable over the last three years through FY2019 on account of modest accruals during the same period.

The firm has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible network (TOL/TNW) levels of 0.38 times and 1.61 times as on March 31, 2018. The leverage levels continue to remain low at around 0.36 times as on March 31, 2019 (provisional). The firm incurred capex of Rs. 3.78 crore over the last three years to purchase construction equipment. PDR's comfortable cash accruals to the tune of about Rs. 5.76 crore have supported in minimizing the reliance on external debt leading to healthy gearing and debt levels of 0.36 times and Rs. 5.93 crore as on March 31, 2019 (provisional). PDR's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.7-8 crore, which are comfortable to service its repayment obligations of Rs. 0.48-0.54 crore, while supporting about the entire routine capex of Rs. 2.99 crore and incremental working capital requirements. As a result, the gearing is expected to moderate to around 0.25 times as on March 31, 2021 on back of healthy cash accruals.

The revenues of the firm have marginally improved to Rs. 75.63 crore during FY2019, while its operating margins have improved by around 4.26 per cent to 10.73 per cent. The comfortable profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest

coverage ratio for FY2019 were healthy at 0.97 per cent and 9.21 times, respectively.

Acuite expects the financial risk profile to improve over the medium term on account of improving profitability and improvement in the cash accruals.

- **Efficient working capital management**

PDR has efficient working capital management, as is reflected by its gross current asset (GCA) days of around 77 days as on March 31, 2019 (provisional). The firm's inventory of around 35 days mainly consists of work-in-progress. PDR receives payments from the government in 2-3 months. On the other hand, the firm gets a good credit of 2-3 months from its suppliers, owing to the long-standing relationship with its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average of 74 per cent over the past one year through March 2019. Acuite expects the working capital management to remain comfortable over the medium term on account of high credit period received from its suppliers.

- **Moderate order book position**

As on 31 March, 2019, PDR has an unexecuted order book to the tune of Rs.113.06 crore, giving moderate revenue visibility. As on date, the firm has participated in 7-8 tenders, valuing up to Rs. 400 crore, of which the firm is expected to bag orders of around Rs.150 crore in the current financial year, thus giving adequate revenue visibility in the medium term.

Weaknesses

- **Tender- based nature of business, leading to susceptibility of operating cash flows to timely flow of orders**

PDR's operating income declined to Rs. 72.54 crore in FY2018 from Rs. 78.75 in FY2017. This is mainly due to lesser number of orders received from the government in FY2018-19, as compared to FY2017-18, the latter being the election year. This is also the reason for decline in the operating margins. Further, as informed by management, the firm has achieved revenue of Rs. 20.76 crore for 4MFY2020 and the revenues are expected to be in the range of Rs. 85-90 crore over the medium term. Further, the firm's revenues are dependent on contracts received through Cauvery Neeravari Nigam Limited. The tender based business along with low entry barriers in the industry leads to intense competition in bids. Any event such as a significant slowdown in receipt of orders, deferment of projects by the counterparty or delay in realization of receivables from major customers will have a bearing on the operating cash flows and credit profile of the firm.

- **Customer and geographic concentration of risk in competitive and fragmented industry**

PDR largely caters to the government bodies of Karnataka namely Cauvery Neeravari Nigam Limited. However, the firm is making attempts to diversify by bidding for orders from other States/Division. Also, existence of large number of players in the industry exposes the firm to intense competition.

Key Rating Sensitivity Factors

- Healthy growth in operating income in the range of Rs. 90-120 crore.
- Deterioration in the operating margins in the range of 7-8 per cent.

Material Covenants

None

Liquidity Position

The liquidity position of PDR is adequate. The net cash accruals of the firm have been in the range of Rs. 5.68- 5.76 crore during the period under study. Its accruals are expected in the range of Rs. 7-8 crore, against which its obligations are about Rs. 0.48-0.54 crore. Owing to the extensive credit period the firm enjoys from its suppliers, its bank limits are moderately utilised at 74 per cent during the last financial year. The current ratio of the firm stood at 2.48 times on 31 March, 2019 (provisional), as against 1.44 times during the previous year. Acuite believes that going forward, the liquidity position of the firm will continue to remain adequate on account of healthy cash accruals and moderate working capital cycle.

Outlook: Stable

Acuite believes PDR will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in the firm's revenues or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	75.63	72.54	78.75
EBITDA	Rs. Cr.	8.12	6.03	8.12
PAT	Rs. Cr.	4.89	2.79	5.04
EBITDA Margin	(%)	10.73	8.32	10.31
PAT Margin	(%)	6.46	3.85	6.41
ROCE	(%)	34.25	28.56	47.82
Total Debt/Tangible Net Worth	Times	0.36	0.38	0.29
PBDIT/Interest	Times	9.21	6.53	10.12
Total Debt/PBDIT	Times	0.72	0.91	0.47
Gross Current Assets (Days)	Days	77	133	92

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated Jul 19, 2019, had denoted the rating of P. Dasaratharama Reddy as 'CRISIL BB+/A4+'; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

ICRA, vide its press release dated Mar 22, 2019, had denoted the rating of P. Dasaratharama Reddy as 'ICRA B+/A4+'; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Infrastructure Entities: <https://www.acuite.in/view-rating-criteria-14.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Aug-2018	Secured Overdraft	Long Term	4.00	ACUITE BB (Issuer not cooperating)
	Term Loan – I	Long Term	0.57	ACUITE BB (Issuer not cooperating)
	Term Loan – II	Long Term	0.21	ACUITE BB (Issuer not cooperating)
	Proposed facility	Long Term	0.22	ACUITE BB (Issuer not cooperating)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Issuer not cooperating)
27-May-2017	Secured Overdraft	Long Term	4.00	ACUITE BB/ Stable (Assigned)
	Term Loan – I	Long Term	0.57	ACUITE BB/ Stable (Assigned)
	Term Loan – II	Long Term	0.21	ACUITE BB/ Stable (Assigned)
	Proposed facility	Long Term	0.22	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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