



Press Release

P DASARATHA RAMA REDDY

February 16, 2022

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	ACUITE BB- Stable Downgraded	-
Bank Loan Ratings	20.00	-	ACUITE A4 Downgraded
Total Outstanding Quantum (Rs. Cr)	27.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for downgrade

The rating downgrade factors the adverse impact of the outbreak of Covid 19 and resultant lockdowns, causing substantial revenue decline in FY2021, stretched liquidity marked by increase in gross current asset (GCA) days and creditor days and modest unexecuted order book of ~Rs. 60 Cr for the month ended December 2021 coupled with geographical concentration. Further, the revenue of the firm for the period ended December 2021 remains considerably low at Rs. 8.54 Cr. However, the rating draws comfort from extensive management experience of more than two decades, timely execution of projects and funding support by partners through infusion of Rs. 4.52 Cr in FY2021.

About the Company

Bengaluru-based, 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 in Karnataka like Cauvery Neeravari Nigam Limited.

Analytical Approach

Acuite 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 by Mr. Krishna Reddy, Mrs. Bhavani and Mr. Dinesh Reddy. The

Managing partner, Mr. Krishna Reddy, has an experience of around two decades in the similar line of business. The firm has a long track record in civil construction business. 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. However, the firm also undertakes projects on subcontracting basis from private players.

Acuite believes the experience of the management and the support extended by the partners will provide stability to the business risk profile of the firm.

• **Moderate financial risk profile:**

The firm has a moderate financial risk profile marked by moderate net worth, moderate gearing and moderate debt protection metrics. The net worth of the firm as on March 31, 2021 stood at Rs. 13.54 Cr against Rs. 11.03 Cr as on March 31, 2020. The debt of the firm increased from Rs. 9.01 Cr as on March 31, 2020 to Rs. 12.62 Cr as on March 31, 2021. The total debt as on March 31, 2021 consists of long term debt Rs. 3.30 Cr, unsecured loan (USL) from partners Rs. 4.52 Cr and short term debt of Rs. 4.80 Cr. In FY2021, Rs. 1.40 Cr was availed as Covid loan and Rs. 4.52 Cr was contributed by partners. The firm follows a conservative leverage policy with peak gearing of 0.93 times as on March 31, 2021 against 0.82 times and 0.39 times as on March 31, 2020 and March 31, 2019 respectively. The total outside liabilities/total net worth (TOL/TNW) increased to 1.78 times as on March 31, 2021 from 1.67 times as on March 31, 2020. The interest coverage ratio (ICR) was from 5.27 times as on March 31, 2020 against 2.64 times as on March 31, 2021.

Acuite believes the financial risk profile of the firm will remain moderate over the medium term.

Weaknesses

• **Decline in revenue and modest order book position:**

The revenue of the firm in FY2021 reduced to Rs. 29.50 Cr from Rs. 60.13 Cr and Rs. 69.38 Cr in FY2020 and FY2019 respectively. The fall in revenue can be attributed to the Covid-19 induced lockdowns resulting into delayed payments from Government Authorities causing delayed revenue recognition. Additionally, the revenue for the period ended December 2021 was also considerably low at Rs. 8.54 Cr. Further, the unexecuted order book of the firm stood at a modest ~Rs. 60.00 Cr, the firm is expecting orders worth Rs. 30.00 Cr by the end of FY2022. The revenue visibility for the firm over short term is moderate. Also, PDR largely caters to the government bodies of Karnataka namely Cauvery Neeravari Nigam Limited resulting into customer and geographic concentration risk. However, the firm has managed timely execution of projects in the past.

Acuite believes firm's ability and improve its scale of operations will be a key rating sensitivity.

• **Deterioration in working capital cycle:**

The operations of the firm are working capital intensive. The GCA days of the firm increased from 120 in FY2020 to 372 in FY2021. The increase in GCA days is attributable to the increased debtor days from 46 in FY2020 to 138 in FY2021 and increase in inventory days from 21 in FY2020 to 71 in FY2021. GCA days also takes into account other current asset, majorly consisting of earnest money deposit (EMD), security deposit and retention money. At the time of tender allotment, EMD of 1-1.5 per cent is deposited. On bill raising 4 percent is withheld as retention money during the defect liability period thereby resulting into high GCA days. The high GCA cycle has led to high utilization of bank lines, which remain 90 percent utilized for the nine - month period ended December 2021.

Acuite believes any further deterioration in PDR's working capital cycle will impart a negative bias to the rating.

Rating Sensitivities

- Recovery in scale of operations to previous year levels through growth in revenue while maintaining profitability.
- Any further stretch in working capital leading to liquidity constraints.

Material covenants

None.

Liquidity Position: Stretched

The operations of the firm are working capital intensive. The GCA days of the firm increased from 120 in FY2020 to 372 in FY2021. The increase in GCA days is attributable to the increased debtor days from 46 in FY2020 to 138 in FY2021 and increase in inventory days from 21 in FY2020 to 71 in FY2021. GCA days also takes into account other current asset, majorly consisting of earnest money deposit (EMD), security deposit and retention money. At the time of tender allotment, EMD of 1-1.5 per cent is deposited. On bill raising 4 percent is withheld as retention money during the defect liability period thereby resulting into high GCA days. The high GCA cycle has led to high utilization of bank lines, which remain 90 percent utilized for the nine - month period ended December 2021.

Acuité believes any further deterioration in PDR's working capital cycle will impart a negative bias to the rating.

Outlook: Stable

Acuité believes that PDR will maintain a 'Stable' outlook over the medium term due to experienced management, established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected revenues and profit margins, leading to deterioration in financial risk profile or further deterioration in working capital.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	29.50	60.13
PAT	Rs. Cr.	1.36	2.38
PAT Margin	(%)	4.60	3.96
Total Debt/Tangible Net Worth	Times	0.93	0.82
PBDIT/Interest	Times	2.64	5.27

Status of non-cooperation with previous CRA (if applicable)

CRISIL vide its press release dated 17 January 2022, has classified PDR as 'Issuer not co-operating' and rated 'CRISIL B/Stable/A4'.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Jun 2021	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Issuer not co-operating*)
	Secured Overdraft	Long Term	7.00	ACUITE BB (Downgraded and Issuer not co-operating*)
01 Oct 2019	Secured Overdraft	Long Term	7.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Reaffirmed)
08 Aug 2018	Secured Overdraft	Long Term	4.00	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	0.57	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	0.21	ACUITE BB (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	0.22	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Issuer not co-operating*)
27 May 2017	Secured Overdraft	Long Term	4.00	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	0.57	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	0.21	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	0.22	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4 Downgraded (from ACUITE A4+)
Union Bank of India	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- Stable Downgraded (from ACUITE BB)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Aruna Ganesh Analyst-Rating Operations Tel: 022-49294065 aruna.ganesh@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité