Press Release

P Dasaratharama Reddy

March 30, 2023

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.00	ACUITE BB- | Stable | Reaffirmed	-
Bank Loan Ratings	18.00	-	ACUITE A4 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	27.00	-	-

Rating Rationale

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

Rating Rationale

The ratings reaffirmation takes into account the experienced management and long track record of operations. Further, the rating derives strength from the comfortable financial risk profile. The operating income of PDR is stable with Rs.34.91 Cr in FY2022 as against Rs.29.38 Cr in FY2021. It generated a revenue of Rs.36.63 Cr in 11MFY23. However, the rating is constrained by working capital intensive operations and risks pertaining to tender based nature of operations. Going forward, ability of the firm to improve its scale of operations while maintaining its profitability margins and capital structure and restricting further elongation of its working capital cycle will remain a key rating monitorable.

About the Firm

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

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 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 one civil contractor. However, the firm also undertakes projects on subcontracting basis from private players. As on February 2023, PDR has an unexecuted order book position of approx. Rs.80.80 Cr which estimated to be completed over the next 24-36 months. Thus, providing medium-term revenue visibility. 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, comfortable gearing and comfortable debt protection metrics. The net worth of the firm stood at Rs.19.66 Cr and Rs.18.68 Cr as on March 31,2022 and March 31,2021 respectively. The gearing of the firm has been deteriorating over the last 3 years ending March 31,2022 due to increase in short term debt. However, the gearing ratios remain below unity. It stood at 0.62 times as on March 31,2022 against 0.48 times as on March 31, 2021. The Debt/EBITDA has increased during the period as it stood at 2.79 times as on March 31, 2022 as against 2.06 times as on March 31,2021 respectively. The debt protection metrics is moderate, marked by interest coverage ratio and debt service coverage ratio stood at 3.47 times and 1.96 times as on March 31, 2022 respectively as against 2.98 times and 1.83 times as on March 31, 2021 respectively. Total Outside Liabilities by Total Net Worth (TOL/TNW) stood at 1.28 times and 1.09 times as on March 31, 2022 and March 31, 2021 respectively. Acuité expects the financial risk profile to remain comfortable over the medium term in the absence of any major debt funded capex plan.

Weaknesses

Deterioration in working capital cycle:
The operations of the firm are working capital intensive. The Gross Current Assest (GCA) days of the firm increased from 336 in FY2021 to 358 in FY2022. The increase in GCA days is attributable to the increased debtor days from 148 in FY2021 to 178 in FY2022 and increase in inventory days from 123 in FY2021 to 144 in FY2022. 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. Subsequently, the payable period stood at 216 days as on March 31, 2022 as against 142 days as on March 31, 2021 respectively. The high GCA cycle has led to high utilization of bank lines, which remain 90 percent utilized for the twelve- month period ended November 2022. Acuité believes that the working capital requirements will continue to remain intensive over the medium term due to its nature of operations.

Susceptibility to tender-based operations
Tender based operations limit pricing flexibility in an intensely competitive industry. Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicality inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the firm's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Any deterioration in working capital cycle and liquidity profile of the firm.

Material covenants
None

Liquidity Position: Adequate

The firm has generated adequate net cash accruals to service its debt obligations. The Net Cash Accruals (NCA)stood at Rs.2.30 Cr in FY2022 as against the repayment of Rs.0.56 Cr for the same period and expected to generate cash accruals in the range of Rs.2.96-3.89 Cr. against debt obligation of Rs.0.42 – 0.32 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs.1.45 Cr as on March 31, 2022. The current ratio of the firm stood at 1.60 times as on 31 March, 2022. The average bank limit utilization in the last twelve months ended November, 2022 remained at 90.54 percent for fund-based and 43.57 percent for non-fund based. Acuité believes that PDR's liquidity will remain sufficient over the medium term backed by improving accruals and moderate repayment obligations.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	34.91	29.38
PAT	Rs. Cr.	1.38	1.12
PAT Margin	(%)	3.96	3.80
Total Debt/Tangible Net Worth	Times	0.62	0.48
PBDIT/Interest	Times	3.47	2.98

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

CRISIL vide its press release dated 17 January 2022, has classified PDR as 'Issuer not cooperating' (INC) and rated 'CRISIL B/A4'.
ICRA vide its press release dated 19th October 2022, had rated PDR to ICRA B+/A4; INC.

Any other information

None

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Feb 2022	Bank Guarantee	Short Term	20.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Secured Overdraft	Long Term	7.00	ACUITE BB- | Stable (Downgraded from ACUITE BB)
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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE A4 | Reaffirmed
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BB- | Stable | Reaffirmed
Union Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB- | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.