



**Press Release**  
**P Dasaratharama Reddy**  
**June 27, 2024**  
**Rating Upgraded**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.00	ACUITE BB   Stable   Upgraded	-
Bank Loan Ratings	13.00	-	ACUITE A4+   Upgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	27.00	-	-

**Rating Rationale**

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

**Rationale for upgrade**

The rating upgrade takes into account the sustainable improvement in the operating income of the firm for the last two years. The operating income of the firm stood at Rs.62.81 Cr. in FY2024(prov), Rs.47.11 Cr. in FY2023 as against Rs.34.91 Cr. in FY2022 with a reporting CAGR of 34.14 percent for the last two years ended FY2024(Prov). Further, the working capital operations of the firm have improved with GCA days of 176 days in FY2024(Prov.) as compared to 242 days in FY2023 and 332 days in FY2022. The rating also considers experienced management and its established track record of operations. Further, the rating derives strength from above-average financial risk profile and adequate liquidity. Going forward, the 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 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.

**Unsupported Rating**

Not Applicable

**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 around two decades of experience in a similar line

of business. The firm has a long track record in the civil construction business. PDR is engaged in the execution of civil construction projects such as canals, roads and bridges mostly for government departments mainly for Cauvery Neeravari Nigam Limited in Karnataka and is operating as a class one civil contractor. However, the firm also undertakes projects on a subcontracting basis with private players.

The operating income of the firm improved and stood at Rs.62.81 Cr. in FY2024(Prov.), Rs.47.11 Cr. in FY2023 as against Rs.34.91 Cr. in FY2022 with a reporting CAGR of 34.14 percent for the last two years. The growth in revenue is due to the high success rate of the tender, and in turn, an increase in the order book position. However, the EBITDA margin has moderated in the last two years ended FY2024(Prov.); it stood at 8.38 percent in FY2024(Prov.), 10.00 percent in FY2023 as against 12.15 percent in FY2022. As on March 2024, PDR has an unexecuted order book position of approx. Rs.59.24 Cr which is estimated to be completed over the next 12-18 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.

#### **Above-average financial risk profile:**

The financial risk profile of the firm has remained above -average for the last three years, as indicated by its improving capital structure, low gearing and comfortable debt protection metrics. The net worth of the firm improved to Rs.23.17 Cr. as on March 31, 2024 (Prov.) as against Rs.19.68 Cr. and Rs.19.66 Cr. as on March 31, 2023 and March 31, 2022 respectively. The partner's infused capital of Rs.1.23 Cr. in FY2024 (Prov.).

The gearing levels have been at similar levels for the past three years ended FY2024(Prov.). It stood at 0.54 times as on March 31, 2024 (Prov.) as against 0.58 times as on March 31, 2023. The total debt of the firm is Rs.12.50 Cr. consists of vehicle loan and equipment loans of Rs.0.95 Cr, short term debt of Rs.9.78 Cr, unsecured loans from directors/ promoters of Rs.1.19 Cr. and the maturing portion of long term borrowings of Rs.0.58 Cr. The USL are interest free loans.

The Debt/EBITDA (Total debt to EBITDA) moderately improved and stood at 2.32 times and 2.37 times as on March 31, 2024(Prov.) and March 31, 2023 respectively as against 2.54 times as on March 31, 2022. The TOL/TNW stood at 0.87 times as on March 31, 2024 (Prov.) as against 1.17 times as on March 31, 2023.

The debt protection metrics of the firm is comfortable with the interest coverage ratio (ICR) of 3.94 times as on March 31, 2024 (Prov.) as against 4.25 times as on March 31, 2023. Further the debt service coverage ratio (DSCR) stood comfortable at 2.17 times as on March 31, 2024 (Prov.) as against 2.41 times as on March 31, 2023. NCA/TD (Net cash accruals to total debt) stands stable at 0.24 times as on March 31, 2024 (Prov.).

Acuite expects the financial risk profile to remain comfortable over the medium term in the absence of any major debt funded capex plan.

#### **Weaknesses**

##### **Intensive working capital operations**

The working capital operations of the firm are intensive in nature, with high GCA days and bank limit utilisation. The GCA days stood at 176 days and 242 days in FY2024 (Prov.) and FY2023 respectively, as against 332 days FY2022. In spite of high GCA days, improvement is observed in FY2024 (prov) and FY2023. The increase in efficiency in the GCA days is due to a significant improvement in inventory and debtor days. Inventory days stood at 45 days and 107 days in FY2024 (Prov.) and FY2023 respectively, as against 144 days in FY2022. The debtor's period stood at 63 days and 98 days in FY2024 (Prov.) and FY2023 respectively, as against 178 days in FY2022. The payable day stood at 43 days in FY2024(Prov.) as against 142 days in FY2023.

Further, the average bank limit utilization in the last twelve months ended May 2024 remained high at 93.10 % for fund based and 68.50% for non-fund-based facilities.

ACUITE believes that the working capital operations of the firm continue to be intensive in nature owing to the nature of the 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 cyclical nature 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.

#### **Partnership nature of business**

PDR is a partnership firm and is exposed to the likeliness of the partners withdrawing capital from the business. Acuité believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

#### **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.
- Any significant withdrawal of capital by partners.

#### **Liquidity Position: Adequate**

The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.3.03 Cr. in FY2024 (Prov.) as against the repayment of Rs.0.66 Cr. for the same period and are expected to generate cash accruals in the range of Rs.3.53 – 4.06 Cr. for the period of FY2025 -26 against CPLTD of Rs.0.58 – 0.55 Cr. over the same period. Further, the unencumbered cash and bank balances stood at Rs.0.26 Cr. as on March 31, 2024 (Prov.). The current ratio of the company stood at 1.76 times as on March 31, 2024 (Prov.). The average bank limit utilization in the last twelve months ended May 2024 remained high at 93.10 % for fund based and 68.50% for non-fund-based facilities.

Acuite believes that PDR's liquidity will remain adequate over the medium term backed by the repayment of its debt obligations and improving accruals.

#### **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 above-average 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	62.81	47.11
PAT	Rs. Cr.	2.26	1.82
PAT Margin	(%)	3.59	3.86
Total Debt/Tangible Net Worth	Times	0.54	0.58
PBDIT/Interest	Times	3.94	4.25

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

Not Applicable

### 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, Acuite 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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Mar 2023	Secured Overdraft	Long Term	8.00	ACUITE BB-   Stable (Reaffirmed)
	Proposed Secured Overdraft	Long Term	1.00	ACUITE BB-   Stable (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	18.00	ACUITE A4 (Reaffirmed)
16 Feb 2022	Secured Overdraft	Long Term	7.00	ACUITE BB-   Stable (Downgraded from ACUITE BB)
	Bank Guarantee/Letter of Guarantee	Short Term	20.00	ACUITE A4 (Downgraded from ACUITE A4+)
24 Jun 2021	Secured Overdraft	Long Term	7.00	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+   Stable)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A4+ (Reaffirmed & 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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	13.00	ACUITE A4+   Upgraded ( from ACUITE A4 )
Not Applicable	Not avl. / Not appl.	Proposed Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )
Union Bank of India	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )

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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.

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