

## Press Release

D K Bharat Simha Reddy

March 19, 2019



### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 29.50 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB/Stable)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) from **ACUITE BB** / and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 29.50 crore bank facilities of D K Bharat Simha Reddy (DKSR). The outlook is '**Stable**'.

Rating downgrade reflects deterioration in business risk profile and delayed execution of projects. DKSR has been in operation for more than a decade and has moderate scale of operations as marked by operating income of Rs.15.77 crore in FY2018 as compared to Rs.22.13 crore in the previous year.

DKSR was established in 2001 by Mr. D K Bharat Simha Reddy. The firm is engaged in providing road construction service to Telengana Government. DKSR majorly caters to various departments of Telengana Government and during FY19, the firm has started sub-contracting work for National Highways.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of DKSR to arrive at the rating.

### Key Rating Drivers

#### Strengths

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

The proprietor has experience of more than a decade in the construction and infrastructure industry.

- **Moderate financial risk profile**

The financial risk profile of the firm remains moderate marked by net worth of Rs.23.63 crore as on 31 March, 2018 as against Rs.22.84 crore as on 31 March, 2017. The gearing stood at 1.19 times as on March 31, 2018. TOL/TNW stood moderate at 0.29 times in FY 2018. The total debt of Rs.4.53 crore which consist of Rs.2.53 crore of long term loan mainly for equipment and Rs.2.00 crore of short term debt. The interest coverage ratio stood at 7.15 times in FY2018 and DSCR stood at 7.15 times in FY2018 in absence of major long term debt obligations. The net cash accruals stood at Rs.3.72 crore in FY2018 and NCA/TD stood at 0.82 times in FY2018.

#### Weaknesses

- **Moderate scale of operations**

DKSR has been in operation for more than a decade and has moderate scale of operations as marked by operating income of Rs.15.77 crore in FY2018 as compared to Rs.22.13 crore in the previous year. The firm has clocked operating revenue of Rs.8.00 crore during April 2018 to January 2019 (Provisional).

- **Working capital intensive operations**

The Gross Current Asset of the firm has deteriorated to 226 days in FY2018 as against 142 days in FY2017, on account of the high stock piling up due to less billing and fund crunch from government clients. Due to this, the firm had utilised the entire sanctioned cash credit. The long term loan has been taken mainly for equipment for execution of projects.

- **Moderate order book position with limited revenue visibility**

DKSR does civil construction work mainly for Telangana government and Surat, which indicates that the firm's revenues are highly dependent on the number and value of tenders floated by these Government authorities. Moreover, any further delays in the project execution of current projects along with the delayed receipt from the authorities and site related issues are likely to result in higher working capital requirements. However, this risk is mitigated, as DKSR has established relations with the respective departments which resulted in timely realisations. The company has a healthy order book of Rs.922.50 crore, out of which Rs.609.62 crore is unexecuted and is expected to be executed in the next three to four years.

#### **Liquidity Position**

The firm has adequate liquidity marked by moderate net cash accruals against no major maturing debt obligations during the year. DKSR has generated cash accruals of Rs.3.72 crore and maintained unencumbered cash and bank balances of Rs.1.01 crore as on March 31, 2018. The current ratio of the firm stood high at 2.99 times as on March 31, 2018. Acuité believes that the liquidity of DKSR is likely to remain moderate over the medium term on account of moderate cash accruals to service its maturing debt obligations in the medium term.

#### **Outlook: Stable**

Acuité believes DKSR will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues due to timely execution of orders and net cash accruals while maintaining better profit margins and improvement in capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the firm's financial risk profile.

#### **About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	15.77	22.13	22.77
EBITDA	Rs. Cr.	4.32	5.72	3.91
PAT	Rs. Cr.	0.91	1.34	1.37
EBITDA Margin	(%)	27.42	25.86	17.16
PAT Margin	(%)	5.79	6.04	6.02
ROCE	(%)	5.23	8.18	12.96
Total Debt/Tangible Net Worth	Times	0.19	0.30	0.27
PBDIT/Interest	Times	7.15	5.90	11.03
Total Debt/PBDIT	Times	1.05	1.22	1.45
Gross Current Assets (Days)	Days	252	164	132

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

None

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
17-Sep-2018	Secured Overdraft	Long Term	1.50	ACUITE BB (Indicative)
	Proposed Secured Overdraft	Long Term	0.70	ACUITE BB (Indicative)
	Bank Guarantee	Short Term	6.50	ACUITE A4+ (Indicative)
	Proposed Bank Guarantee	Short Term	20.80	ACUITE A4+ (Indicative)
12-Aug-2017	Secured Overdraft	Long Term	1.50	ACUITE BB / Stable (Assigned)
	Proposed Secured Overdraft	Long Term	0.70	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	6.50	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	20.80	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	2.00 (Enhanced from Rs. 1.50 crore)	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs. 6.50 crore)	ACUITE A4+ (Reaffirmed)
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	0.20 (Reduced from Rs. 0.70 crore)	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.30 (Reduced from Rs. 20.80 crore)	ACUITE A4+ (Reaffirmed)

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