

Press Release

V B Prasada Reddy

January 12, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE BB**' (**read as ACUITE Double B**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A Four Plus**) on the Rs. 12.00 crore bank facilities of V B Prasada Reddy. The outlook is '**Stable**'.

V B Prasada Reddy ('Firm' or 'VBPR') is a proprietorship concern incorporated in 1995 promoted by Mr. V B Prasada Reddy in Karnataka. Mr. V B Prasada Reddy is a qualified civil engineer who holds a B. Tech degree in Civil Engineering. The firm is a registered Class 1 Civil Licensed contractor with Karnataka PWD. Mr. Reddy has 26 years of experience in managing and executing civil contracts works exclusively related to state and central government departments. He is supported by Sai Kiran Reddy who is the project engineer for the firm.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of V B Prasada Reddy to arrive at the rating.

Key Rating Drivers

Strengths

- **Class 1 contractor with more than two decades of experience in civil construction segment**

VBPR is a class 1 licensed contractor with KPWD and have more than two decades of experience in civil construction segment mainly handling contracts for institutions like Karnataka Residential Education Institutions Society, Rajiv Gandhi University of Health Sciences, Rail India Technical and Economic Services Ltd etc. Acuité believes that being a class 1 licensed contractor and the experience will help the firm to be eligible for bidding for infrastructural works by different government agencies on medium term.

- **Established raw material linkages**

VBPR purchases its main raw materials like cement, steel and other raw materials from various fixed suppliers against credit period of 30 days. VBPR usually sub-contracts up to 25 percent of its work. Lower sub-contracting leads to better operating margins. Acuité believes that having established raw material linkages would help the firm in procuring raw materials at the lowest possible prices and at comfortable credit terms in the future.

- **Modest order book position**

The firm has ongoing projects worth Rs 107.34 Cr in hand of which only Rs 28.97 Cr is completed and remaining work to be completed amounts for Rs 78.37 Cr to be executed in next 24 months providing revenue visibility over medium term. Acuité believes that with the existing order book position provides revenue visibility and cash accruals to fund for upcoming projects that might be announced by the State.

• **Financial Risk Profile**

The financial risk profile of the company is comfortable with gearing at 0.78x in FY20 improving from 0.81x in FY19 primarily as a result of increase in net worth. The gearing remains low as civil contractors generally follow an asset-light model. While the coverage indicators though high, deteriorated as a result of increased average debt and higher cost of borrowing. The DSCR deteriorated from 6.91x in FY19 to 5.15x in FY20 while the interest coverage deteriorated from 9.8x in FY19 to 7.21x in FY20. Despite the regular capex, the gearing is expected to stay below 1x over the next 3 years. Acuité believes that having comfortable financial flexibility will help in increasing the scale of operations in medium term.

Weaknesses

• **Geographically concentrated order book**

100% of the revenue of the company was derived from Karnataka in the past and all the ongoing projects in hand are also in same state, leading to significant geographical concentration risk. Acuité believes that significant geographic concentration could impact the business in long term limiting the possibility of increasing scope of operations and any changes in regulatory requirements would affect the business of the firm in long term.

• **Modest Scale of operations**

The firm reported a revenue of Rs 43.17 Cr in FY20, 11.1% decline over FY19 revenue which can be primarily attributed to contractual nature of the business. The firm was non-operational in the months of April and May 2020 due to pandemic induced lockdown. The firm is expected to show modest revenue growth backed by progress in ongoing projects. While the EBITDA deteriorated marginally as a result of lower revenues, the operating margins improved marginally from 5.52% in FY19 to 5.94% in FY20 primarily as a result of lower raw material cost. Acuité believes that modest scale of operations might affect the financial flexibility of the firm in medium term.

• **Tender based nature of Operations**

VBPR executes only tender based projects from government with minimal reliance on sub-contract work. Once the tender is allotted, EMD of 5-10 per cent is deposited with the issuing department and the firm is given the LOA. Once the firm starts with the project, running account bills are raised on completion of stages of construction on a monthly basis. The firm has to provide bank guarantee usually equivalent to 5-10 per cent of the contract value, which is released after a defect liability period of 1 year. Since, the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. VBPR has success rate of ~50 per cent in bidding and revenue and profitability are susceptible to risks inherent in contract based operations. Also, Tender based operations limit pricing flexibility in an intensely competitive industry. Acuité believes that the revenue of the firm is susceptible to the outcome of tender process, which is to a large extend unpredictable.

Liquidity Position: Moderate

The working capital cycle is moderate with GCA days in the range of 56 – 159 days over the last 3 years. The GCA days are marked by moderate inventory days and low debtor days. The high GCA days include the other current asset portion in the form of security deposits and EMD. The GCA days improved from 105 days in FY19 to 56 days in FY20 as a result of realization of bills from the government departments. The unencumbered free cash at hand was Rs. 0.15 Cr while the Net cash accruals was in the range of Rs. 0.77 Cr to Rs. 1.78 Cr, which was comfortable to cover repayment of the equipment loans availed by the company. Further, the average utilization of fund based facilities was low as the firm relies primarily on bank guarantee facilities. With repayments of existing car and machinery loans and increased accruals, the debt protection metrics are expected to remain healthy in coming years.

Rating Sensitivities

- Improvement in scale of operations
- Improvement in working capital cycle leading to better liquidity position

Outlook: Stable

Acuité believes that VBPR will maintain stable credit profile on account of stable operating performance. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the financial profile. Conversely, the outlook may be revised to 'Negative' in case of significant elongation of working capital cycle and delay in realization of bills from the government institutions which the firm is dealing with.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	43.17	48.56
PAT	Rs. Cr.	1.35	1.56
PAT Margin	(%)	3.12	3.21
Total Debt/Tangible Net Worth	Times	0.78	0.81
PBDIT/Interest	Times	7.21	9.80

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB/ Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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