



Press Release
D Y UPPAR AND SONS
December 07, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	200.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	300.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three 'Plus'**) to the Rs.300 Cr bank facilities of D Y Uppar & Sons(DYUS). The Outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into account the established track record of firm in irrigation contracts for almost one decade along with experienced partners. The rating also factors in the healthy order book position of Rs. 3225.03 Cr as on August 2023 which is 6.3 times of FY2023 revenue comprising of diversified works including irrigation works, road projects and drinking water projects. Further, rating also factors in the above average financial risk profile backed by healthy profitability margins, low leverage ratio at 0.10 times as on March 31 st 2023 and healthy debt protection metrics with DSCR at 7.86 times as on March 31 st 2023. However, rating is constrained by working capital intensive nature of operations, order book consisting of old orders, lack of adequate experience of the firm in execution of road and drinking water projects, risk of capital withdrawal associated with partnership firms and volatility of raw material prices and tender based nature of operations impacting profitability.

About the Company

D Y Uppar & Sons ("DYU" or "The Firm") is a partnership firm Established on 18 th September 2014 registered in Karnataka, India. The firm is engaged in the business to take on contract and execute all type of infrastructural construction projects such as Irrigation projects, canal construction and rejuvenation, land development, road formation and incidental works awarded by public works departments of the State and Central Governments. They are one of the leading reputed contractors in Karnataka with rich experience in execution of major civil engineering contract works for the last 40 years. The firm is involved into execution of irrigation, power projects, highways and urban commercial projects with excellent track record and highest standards of quality and safety within stipulated time and DYU is promoted by a Mr. Dhareppa Y. Uppar – Managing Partner of DYU and is ably assisted by his sons Mr. Sharan Dhareyappa Bandi and Mr. Vijaykumar Bandi (who act as partners in the firm). Mr. Dhareppa Y. Uppar started with execution of minor projects for the irrigation department of the Govt. of Karnataka and gradually started executing bigger projects and expanded his clientele to other government departments like KNNL, CNNL, KBJNL and KPWD.

Unsupported Rating

Not Applicable

Acuite has considered the standalone business and financial risk profile of D Y Uppar and Sons to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced partners and established track record of operation**

D Y Uppar and Sons (DYUS) is a partnership firm incorporated in 2014 by Mr.D Y Uppar, Mr. Sharan Bandi and Mr. Vijay Bandi as partners. Prior to incorporation of partnership firm, D Y Uppar (DYU) operated as a sole proprietary firm engaged in civil contracting activities for almost four decades headed by Mr.D Y Uppar with a primary focus on irrigation projects in Karnataka state involving modernisation of canal systems. The firm is currently managed by Mr.Vijay Bandi and Mr. Sharan Bandi who has experience of more than one decade in this industry. DYUS's management is supported by team of professionals with an adequate experience in executing civil contract works. Firm is also has experience in construction of dams, renovation and extension of canal systems. The extensive experience of partners has helped the firm in establishing long term relationship with its customer and suppliers. DYUS has recently ventured into road projects and drinking water projects under RWSSD scheme in partnership with experienced companies in this segment. Acuite believes that DYUS will continue to benefit from its experienced partners and its long track track record of operations over the medium term.

- **Healthy Order book**

DYUS has healthy order book of Rs.3225.03 Cr as on August 2023, which is 6.3x of its revenue in FY2023. Order book mainly increased on the account of new order worth Rs.1760 Cr received in 2023 from Visvesvaraya Jala Nigam Ltd, RWSSD, and NHAI. Firm has entered into partnership with other experienced companies in order to execute these contracts. Order book of Rs.3225.03 Cr consists of orders dating back to 2018, 2019 and 2020 worth Rs.1464.17 Cr relating to modernisation and renovation of canals, work executing is slow in these orders due to delay in land acquisition and slow execution of works as the work can be executed only for three to four months in a year due to presence of water in the canals. However, firm has received new orders worth Rs.1760 Cr (3.5x of FY23 revenue) in FY2023 indicating adequate revenue visibility over the medium term. Acuite believes that scale of operations of the firm may improve over the near to medium term backed by healthy order book.

- **Above average financial risk profile**

The financial risk profile of the firm is above average marked by healthy net worth, low leverage ratio and above average debt protection metrics. The firm net worth improved to Rs. 428.57 Cr as on March 31st 2023 as against Rs.388.53 Cr as on March 31st 2022 and Rs.405.46 Cr as on March 31st 2021. Fluctuation in net worth is attributable to accretion and withdrawal of profits by the partners. The total debt of Rs.40.89 Cr as on March 31st 2023 consists of long term debt of Rs.2.19 Cr and short term working capital debt of Rs.38.70 Cr. Firm is expected to make promotor contribution to partly meet project cost of developing the HAM project through SPV and lend support /guarantee to protect the interests of the lenders financing the project. The debt of the SPV is expected to be around Rs.264 Cr and promotor contribution is expected to be around Rs.88 Cr. The firm follows a conservative financial policy reflected through its peak gearing of 0.18 times as on March 31 st 2022. The gearing of the firm remained low at 0.10 times as on March 31st 2023 as against 0.18 times as on March 31st 2022 and 0.01 times as on March 31st 2021. The total outside liabilities to tangible net worth stood at 0.38 as on March 31st 2023 as against 0.48 times as on March 31st 2022 and Rs.0.51 times as on March 31st 2021. Further, debt protection metrics stood above average with interest coverage ratio and debt service coverage ratios stood at 11.22 times and 7.86 times

respectively as on March 31st 2023 as against 6.13 times and 4.50 times respectively as on March 31st 2022 and 7.14 and 5.06 times as on March 31st 2021. Acuite believes that financial risk profile of the firm is likely to remain above average over medium term in absence of any debt funded capex.

Weaknesses

• Working Capital Intensive Operations

The working capital operations of the firm are intensive as reflected by its high Gross current asset(GCA) days of 295 days in FY2023 as against 332 days in FY22 and 87 days in FY21. GCA days are majorly dominated by debtor days of 170 days in FY23 as against 241 days in FY22. The inventory days of the firm stood at 4 days in FY23 as against 29 days in FY22. In order to support the working capital requirement firm has stretched its creditor days to 97 days in FY23 as against 61 days in FY22. Further, the average working capital utilisation stood high at 91.36 percent in past 12 months ending September 2023. Acuite believes that working capital operations of the company may continue to remain intensive over the near to medium term due to high realization cycle and nature of operations of the firm.

• Geographical concentration risk

DYUS's operations are primarily concentrated in Karnataka state and majority orders received by the firm are from irrigation corporations relating to Government of Karnataka leading to high geographical concentration of risk on revenue profile. Recently firm has received new orders from NHAI and RWSSD which has helped in diversification of customer concentration risk, However, since all the projects are located in Karnataka geographical concentration risk continues to persist on revenue profile of the firm.

• Risk of capital withdrawal

DYUS's constitution as a partnership firm is exposed to discrete risks, including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis -à-vis a limited company. Acuite believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

• Volatility in raw material prices and tender based nature of operations impacting profitability

Most EPC projects undertaken by the firm has a gestation period of 12-36 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent. DYUS operates in irrigation, roadways and drinking water supply segments which are highly competitive with presence of large number small, regional and large players. EPC projects executed by the Firm are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. This puts strain on profitability of the firm where the bidding can get aggressive.

Rating Sensitivities

- Further elongation in working capital cycle leading to stretch in liquidity
- Withdrawal of capital.
- Any geopolitical disturbances impacting the ongoing projects or order book of the firm
- Significant improvement in revenue while maintaining profitability

All Covenants

None

Liquidity Position: Adequate

DYUS's liquidity is adequate marked by sufficient net cash accruals to repay its debt obligations. It reported cash accruals of Rs.66.37 Cr in FY2023 and Rs.46.38 Cr in FY22, its accruals are expected in the range of Rs 59 to 69 Cr in FY2023-25 against no major repayment obligations during the same period. The current ratio of the firm stands at 3.07 times and cash and bank balances stood at Rs.1.62 Cr as on March 31, 2023. However, firm's GCA days are high around 295 days this makes firm dependent on bank borrowing for working capital requirement. The average working capital limit utilisation stood high at 91.36 percent over 12 months ending September 2023. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accrual and no major large debt capex plans over the medium term.

Outlook: Stable

Acuité believes that the outlook of DYUS will remain 'Stable' over the medium term on account of the partner's extensive experience and established presence in the infrastructure industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the firm.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	504.29	321.20
PAT	Rs. Cr.	60.12	39.62
PAT Margin	(%)	11.92	12.34
Total Debt/Tangible Net Worth	Times	0.10	0.18
PBDIT/Interest	Times	11.22	6.13

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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. Acuité'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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karnataka Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A3+ Assigned
Karnataka Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB Stable Assigned

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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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