A. Bhupal Reddy

July 08, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.46	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total Bank Facilities	**45.46 (₹ Forty-Five Crore and Forty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of A. Bhupal Reddy(ABR) is constrained by its moderate order book position with short to medium term revenue visibility with single sectoral concentration risk, moderate scale of operations, moderate capital structure and debt coverage indicators with elongation in receivables period.These ratings are also constrained its presence in Presence in a highly fragmented and competitive construction industry, proprietorship nature of constitution which inherent to withdrawal of capital These rating weaknesses are partially offset by firm's established track record of completing the construction within envisaged timelines and improving profitability margins.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in size and scale of operation with revenue growing to Rs.200 crore and above, while maintaining the PBILDT margin at above 11% and TOL/TNW less than 3x on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large debt addition resulting in deterioration of the overall gearing ratio to 1.50x and above.
- Decline in PBILDT margin below 10%.
- Deterioration in collection period to more than 150 days leading to moderation in liquidity profile of the company.

Detailed description of the key rating drivers

Key rating weaknesses

Moderate order book position with short term- medium term revenue visibility with single sectoral concentration risk

ABR has confirmed order book position of Rs. 216.31 crore as on May 31, 2022. However, company has one order of Rs.91.55 crore, for which completion progress is considerably slower largely owing to delay in land acquisition by the authority and is expected to be completed by December 2023. The active order book to gross billing stood at less than 1.00x. Currently all the orders of the firm are majorly in relation to the construction, repair, modernization of canals in the region of Karnataka which can lead to revenue concentration risk

Moderate scale of operations

The scale of operations of the firm has stood at Rs.141.28 Cr in FY22(Prov.) when compared to Rs.187.07 Cr in FY21(A). The decline in turnover was non-availability of labour during the covid second wave during Q1FY22 which resulted in low order book execution in FY22.

Moderate capital structure and debt coverage indicators

The capital structure of the company marked by the overall gearing continues to remain comfortable below unity at 0.99x as of March 31, 2022 (Prov.) though deteriorated from 1.30x as of March 31, 2021 at the back of relatively strong net worth however is affected due to withdrawal of capital. The firm has enhanced its working capital limits from Rs.10 Cr to Rs. 19 Cr during FY22 on account meeting the working capital utilization due to delays in the fund release from the government departments. The firm has also availed GECL loans to meet the operational liabilities affected due to covid-19. TOL/TNW stood at 3.06x as on March 31,2022 when compared to 5.16x as on March 31,2021 on account of improved networth.

Elongation in receivables period

The collection period of the firm increased from 80 days in FY21 to 140 days in FY22 due to delay in clearance of bills raised by the company due to operational issues at Govt. organizations on account of covid related issues and lack of availability of funds, there is a significant delay in recovery of bills. O/s receivables as of March 31, 2022, stood at Rs.58.54 crore (46% of net sales) as against Rs.63.08 crore (34% of net sales). GCA days deteriorated significantly to 204 days in FY22 from 150 days in FY21.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Presence in a highly fragmented and competitive construction industry
ABR operates in the intensely competitive construction industry wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The construction sector has been facing challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. The situation further worsened due to outbreak of COVID-19 pandemic (1st wave of pandemic) resulting in slowdown in project execution, heavy labour migrations, increase in working capital intensity and fixed cost pressures on cash flows and profitability. However, there was sharp recovery largely due to relief measures taken by the government and RBI such as moratorium from debt servicing for six months, extension of additional credit lines along with release of retention money under the Aatmanirbhar scheme etc. This apart, there has been better preparedness by the industry for the 2nd wave of pandemic along with strong order book position to sustain the revival leading to stable outlook for the construction industry.

Proprietary nature of constitution which inherent to withdrawal of capital
A.Bhupal Reddy(ABR) being proprietorship firm, is exposed to inherent risk of the promoter's capital being withdrawn at time of personal contingency and firm being dissolved upon death. Moreover, proprietary firm business has restricted avenues to raise capital which could prove a hindrance to its growth.The proprietor has withdrawn a capital of Rs.13.19 Cr as on March 31, 2021 and has infused a capital of Rs. 6.81 in March 31,2022(Prov.).

Key rating strengths
Experience of promoter for more than a decade in Civil Construction industry
A Bhupal Reddy (ABR) has more than decade experience in civil construction industry and is a class 1 contactor. Due to long term presence in the market, the proprietor has established relations with customers and suppliers which enable the firm to get repeated orders from existing customers and additional orders from new customers. The major orders are received from canal administration of districts, minor irrigation department, and municipal departments of Karnataka state. ABR has a satisfactory completion track record.

Improving profitability margins
PBILDT margin stood at 12.74% in FY22(Prov.) when compared to 11.24% in FY20.Despite the fluctuation in operating income in last three years ended FY22, the company was able to maintain the operating margins with a steady growth from 9.50% to 12.00%. The PBILDT margin is expected to be stable around 11-12% in projected years led by order book having good mix of high margin projects coupled with the presence of price variation clause in all work orders which protects the margins from increasing input prices.

Liquidity: Adequate
Liquidity position of the company is adequate characterized by cash accruals of Rs.16.14 crore in FY22 as against the scheduled repayment obligations of Rs.6.28 crore for FY23.The firm's free cash balance stood comfortable at around Rs.28.03 crore as on March 31,2022(Prov.), during FY22 the average collection efficiency stood at above 100% is adequate in meeting debt servicing and WC requirement. The average working capital utilization for the past 12 months ended May'22 stood at 66% which was low due to the comfortable collection efficiency.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

About the firm
A.Bhupal Reddy (ABR) is a Bellary, Karnataka based Proprietorship firm. ABR is a Class-1 contractor having more than 10 years of experience in civil construction activities. Currently, the majority of the order book has work orders in relation to the Modernization/Construction of canal network, Reconstruction of Structures etc. It receives continuous orders from Executive Engineer HW &HLC Division TB Dam, PWP& IWTD Division Ballary, Minor Irrigation-Tumkur Division and Karnataka Neeravari Nigam Limited

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (Prov.)
Total operating income	166.63	187.07	141.28
PBILDT	18.22	21.03	18.00
PAT	8.82	5.59	7.11
Overall gearing (times)	1.63	1.30	0.99
Interest coverage (times)	5.73	7.55	5.00

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2025	26.46	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	19.00	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	26.46	CARE BB; Stable	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	19.00	CARE BB; Stable	-	-	-	-

LT: Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	Nil
B. Non-financial covenants	Nil

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Himanshu Jain
Phone: 8123793395
E-mail: himanshu.jain@careedge.in

Relationship contact
Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in