

## B.Prabhakar Reddy & Co

June 24,2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	4.50	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	4.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>8.50</b> <b>(₹ Eight Crore and Fifty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

#### Detailed rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from B.Prabhakar Reddy & Co to monitor the rating(s) vide e-mail communications/letters dated June 9, 2022, June 13, 2022, and June 16, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on B.Prabhakar Reddy & Co bank facilities will now be denoted as **CARE B; Stable ISSUER NOT COOPERATING /CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above rating(s).**

CARE views information availability risk as a key factor in its assessment of credit risk.

#### Detailed description of the key rating drivers

At the time of last rating on April 30,2021 the following were the rating strengths and weaknesses.

#### Detailed description of the key rating drivers

##### Key rating weaknesses

##### Fluctuating and Small scale of operation

Despite long track record of operations, the scale of operations of the firm remained small marked by total operating income (TOI) of Rs. 15.03 crore in FY20 with moderate tangible net worth of Rs. 10.34 crore as on March 31, 2020 as compared to other peers of industry.

The total operating income (TOI) of the firm has been fluctuating during review period depending orders in hand and execution of the same. The TOI of the firm decreased from Rs.14.48 crore in FY18 to Rs. 14.32 crore in FY19 on account of low execution. However, TOI increased to Rs.15.03 crore in FY20 due to at the back of execution of the current orders in hand coupled with addition of new orders. The firm has achieved total operating income of ~Rs.6.50 crore in FY21 (Prov.).

##### Working capital intensive operations during the review period

The operations are working capital intensive since the firm is engaged in civil construction works. The Operating cycle of the firm was increased from 84 days in FY18 to 227 days in FY20 due to increase in average collection days from 13 days in FY18 to 110 days in FY20 and debtors outstanding of as on ~6.00 crore March 31,2021. The firm making payment to its creditors within a period of 60-90 days and also gets some extended credit period from its suppliers based on long term relationship. The firm holds the inventory of 30-45 days to for smooth flow of execution of orders. The average utilization of working capital limit for the last 12 months ended i.e., March 31, 2021 remained at 95%.

##### Highly fragmented industry with intense competition from large number of players

The firm is engaged in the execution of civil contracts which highly fragmented industry due to the existence of large number of organized and un-organized players operating in the industry.

##### Profitability margins are susceptible to fluctuation in raw material prices

The basic input materials for execution of contracts are steel and cement, the prices of which are highly volatile. Moreover, the firm does not have any long-term contracts with its suppliers for purchase of aforesaid raw materials. Hence, the operating

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

margin of the firm is exposed to any sudden spurt in the input material prices along with increase in labour prices being in labour intensive industry. Furthermore, the firm having price variation clause of 5% in work agreements which would impact the profitability of the firm.

**Tender based nature of operations along with geographic concentration risk**

The revenues of the firm are dependent on the ability of the promoter to bid successfully for the tenders and execute the same effectively. However, the promoter's long experience in the industry for more than two decades mitigates the risk to an extent. The firm is a contractor for various department of state government of Telangana. BPR participates in tenders for receiving work orders from various departments of Telangana government such as Roads and Buildings Department, Panchayat Raj Department, etc.

**Constitution of the entity as partnership firm with inherent risk of withdrawal of capital**

BPR being a partnership firm is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth. The partners of the firm have Infusion of capital of Rs.0.18 crore in FY20

**Impact of COVID-19**

Due to the lockdown on account of COVID-19, the operations of BPR were impacted due to migration of labour resulted in shut down of all major operations for the period of 8 days in March20. However, BPR resumed the operation from October 1st week and gradually improved the labour strength and also executed operations during Q3FY21. The firm has not been availed interest deferment on Bank Overdraft. With gradual progress in work, the company has booked revenue of ~Rs.6.50 crore during 12MFY21

**Highly fragmented industry with number of organized and unorganized players in the market**

The Construction industry is highly competitive and fragmented in nature. BPR witnesses intense competition from both the organized and largely unorganized players. Further, the industry is mainly dependent on the demand from real estate and construction sectors, which has direct linkage with the general macroeconomic scenario, interest rates, level of disposable income available with individuals etc.

**Short revenue visibility from order book position of Rs. 7.07 crore as on March 31, 2021**

The firm has a small order book of Rs.7.07 crore as on March 31, 2021 which is expected to be completed by November 2021. The current order book is 2.12x of the total operating income in FY20. The said order book provides revenue visibility for short term period.

**Key rating strengths****Established track record with experienced Partners for more than one decade in construction industry**

B. Prabhakar Reddy & Co (BPR) was established in the year 2014 as a partnership firm by Mr. B. Sridhar and Mr. B. Ramakrishna and their wife's as other two partners. Initially the firm was established in 1981 as proprietorship firm. The firm is managed by Mr. Banda Sridhar (Managing Partner) & Mr. Ramakrishna (Managing Partner) both are qualified graduates and having more than one decade of experience in the civil construction industry. Due to long presence of the partners in the construction industry, the partners have established relations with its customers which has benefitted in terms of bagging new orders in competitive environment

**Satisfactory profitability margin albeit fluctuation of PAT margin during the review period**

The Profitability margins of the firm have been remained satisfactory during the review period. The PBILDT margins of the firm improved from 9.65% in FY18 to 11.62% in FY20 due to decrease in total cost at back of decrease in employee, power & fuel and other expenses. Furthermore, the PAT margin of the firm fluctuating between 2.94%-3.19% during FY18 to FY20 due to fluctuation of tax expense during the review period.

**Comfortable capital structure and debt coverage indicators during review period**

The capital structure for the firm remained comfortable marked by debt equity and overall gearing ratio remained below unity during the review period. The overall gearing ratio of the firm remained comfortable at 0.41x as on March 31, 2020 due to minimal amount of vehicle loan of Rs.0.13 crore and outstanding working capital limits of Rs 4.15 crore .

Due to above said factor, i.e., considering the low debt levels of Rs. 4.28 crore as on March 31, 2020, the debt coverage indicators of the firm remained satisfactory during review period. However, Total debt/GCA has fluctuating and Stood at 6.13x in FY20 due to fluctuation of gross cash accruals as well as total debt.

Further, interest coverage ratio also comfortable during the review period. However, interest coverage has deteriorated from 3.17x in FY18 to 2.15x in FY20 due to increase in interest charges.

Total debt/ CFO of the firm deteriorated and stood at 3.40x in FY20 due to decrease in cash flow from operation at back of increase in working capital changes by way of delay in realization of payment from customers.

**Stable outlook of construction industry**

The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. The sector was marred by varied 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 Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies. The implementation of Goods and Service Tax might result in short run operational issues and pressure on working capital until the process is streamlined. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

#### **Liquidity: Adequate**

The liquidity profile of the company stood adequate marked by sufficient cushion in accruals vis a vis repayment obligations and cash balance of Rs. 0.07 crore as on March 31, 2020. Current ratio of the company stood at 2.14x as on March 31, 2020. The average utilization of Bank Overdraft facility was 95% for the last 12 months ended March 31, 2021. However, the firm has not been availed interest deferment on Bank Overdraft.

#### **Analytical approach: Standalone**

##### **Applicable criteria**

[Criteria on assigning 'Outlook' and 'Credit watch' to Credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Construction Companies](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy in respect of Non-cooperation by issuer](#)

##### **About the company**

B. Prabhakar Reddy & Co (BPR) was established in the year 2014 as a partnership firm by Mr. B. Sridhar and Mr. B. Ramakrishna and their wife's as other two partners. Initially the firm was established in 1981 as proprietorship firm and engaged sub-contract works. BPR has certified special class contractor engaged in execution of main and sub-contract civil works like irrigation, canal earth works, construction of dams, etc. in the regions of Telangana. The firm registered office located at Jubilee Hills, Hyderabad. The firm purchases its key raw materials i.e. sand cement, etc. from domestic suppliers located in Telangana. BPR has outstanding order book of Rs.7.07 crore as on March 31, 2021

Brief Financials (₹ crore)	FY19 (A)	FY20 (A)	FY21(UA)	FY22(UA)
<b>Total operating income</b>	14.32	15.03	NA	NA
<b>PBILD</b>	1.62	1.75	NA	NA
<b>PAT</b>	0.41	0.48	NA	NA
<b>Overall gearing (times)</b>	0.50	0.41	NA	NA
<b>Interest coverage (times)</b>	2.28	2.15	NA	NA

A: Audited, UA: Un-audited, NA: Not Available

**Status of non-cooperation with previous CRA:** BWR has conducted the review on the basis of the best available information and has classified B.Prabhakar Reddy & Co as "Issuer Not cooperating" vide its press release dated February 16, 2021.

**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-Bank Overdraft		-	-	-	4.50	CARE B; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	4.00	CARE A4; ISSUER NOT COOPERATING*

**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-Bank Overdraft	LT	4.50	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (30-Apr-21)	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	4.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (30-Apr-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Non-fund-based - ST-Bank Guarantee	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.

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### About us:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit

### Disclaimer:

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