

L SUDERSHAN REDDY CONTRACTOR

July 27, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	4.50 (Enhanced from 3.50)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	3.00 (Enhanced from 2.00)	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	7.50 (Rs. Seven Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers

The reaffirmation of rating assigned to bank facilities of L Sudershan Reddy (LSR) continues to be tempered by small scale of operation with lower net worth base, order book concentration risk, constitution of the entity as proprietorship firm with inherent risk of withdrawal of capital and fragmented nature of construction sector with tender-based nature of operations. The ratings, however, derive strength from healthy order book with medium term revenue visibility, established track record of the promoter, satisfactory profitability margins albeit fluctuation, moderate working capital cycle and satisfactory capital structure & debt coverage indicators.

Key Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade

- Consistent increase in the company's scale of operations by more than Rs.50.00 crore while maintaining its operating profit margins at 12% and above.

Negative Factors- Factors that could lead to negative rating action/downgrade

- Any un-envisaged debt funded capex/additional debt availed by the company resulting in deterioration of overall gearing by more than 1.5x
- Increase in collection period including unbilled revenue and retention money exceeding 180 days.

Key Rating Weaknesses

Small scale of operations with lower net worth base

Though the firm has track record of more than five decades, the scale of operations of the firm is relatively small marked by total operating income (TOI) of Rs.13.67 crore in FY21(Prov.) with lower net worth base of Rs. 5.64 crore as on March 31, 2021(Prov.).

Moderate working capital cycle

The firm collection period including unbilled revenue and retention money marginally improved to 116 days for FY21 as against 124 days in FY20 due to improved realizations of receivables. To address the cash flow mismatch on account of covid-19 impact on operations during FY21, the firm had availed working capital term loan & interest moratorium relief provided by lenders under covid-19 and the average utilization of the working limits were almost 99% for the trailing 12 months ending June 30, 2021.

Order book concentration risk.

The firm continues to maintain reliance on state government projects for receipt of bills and requisite clearances. Apart from this, 90% of the orders continue to remain concentrated in roads segment. Further, the entire order book is from a single state Telangana.

Fragmented nature of construction sector with tender-based nature of operations and execution challenges:

The infrastructure sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. All these are tender- based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. Also, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive. However, the promoter's long industry experience of nearly five decades mitigates this risk to some extent.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Constitution of the entity as proprietorship firm with inherent risk of withdrawal of capital

LSR being a proprietorship firm is exposed to inherent risk of the proprietor's capital being withdrawn at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, proprietorship firm business has restricted avenues to raise capital which could prove a hindrance to its growth. The proprietor of the firm has infused capital of Rs.0.65 crore during FY21 and have done withdrawal of capital of Rs.0.13 crore during FY21(Prov.)

Impact of COVID-19

Due to lockdown on account of COVID-19, the operations of LSR were impacted due to migration of labour resulted in shut down of all major operations for a period of 8 days in March 2020. However, LSR resumed the operation from May 25, 2020 onwards and gradually improved the labour strength and also executed operations during Q1FY21. The firm has availed interest moratorium on cash credit from March 2020 to August 2020 and working capital term loan provided by lenders under Covid-19 relief to address the cashflow mismatch on account of impact of Covid-19. The company repaid the interest moratorium amount in entire by March 31, 2021 Further, the firm has booked Rs 5.25 crore during Q1FY22 and they were not impacted due to second wave of covid-19 impact.

Key Rating Strengths**Long track record and experience of the proprietor for more than five decades in the civil construction industry**

Mr. L.Sudershan Reddy started the business operations from 1971. He was graduate by qualification and an experience of more than five decades in construction business. Due to long term presence and experience of the proprietor in construction industry, he has established relationship with suppliers and customers.

Satisfactory profitability margins albeit fluctuation

The operating profit margins of the firm have been satisfactory at 14.54% for FY21. However, the operating profit margin of the firm was fluctuating in the range bound of 13%-15% on account of mix of profit margins available in the order book and small scale of operations. Further, the PAT margins of the firm increased from 3.74% in FY19 to 4.72% in FY21(Prov.) at back of increase in operating profit in absolute level.

Satisfactory capital structure and debt coverage indicators

The capital structure marked by overall gearing marginally deteriorated to 1.08x in FY21 as against 0.81x in FY20, primarily due to increase in higher utilization of working capital limits and fresh working capital term loan provided by lenders under Covid-19 relief to address the cashflow mismatch on account of impact of Covid-19.

The other debt coverage indicators such as Interest coverage marginally declined from 3.48x in FY20 to 3.35x in FY21 on account of higher interest expenses. Further, Total debt/ CFO of the firm has significantly improved from 16.36x in FY19 to 2.95x in FY21(Prov.) due to improvement in cash flow from operation at back of better realization of receivables.

Healthy order book with medium term revenue visibility

The firm has a healthy order book of Rs.37.49 crore from the state of Telangana region as on July 16, 2021. The current order book translates to 2.74x of the total operating income in FY21(Prov.). The said order book provides medium term revenue visibility.

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.

Liquidity - Adequate

The liquidity profile of the firm stood adequate marked by sufficient cushion in accruals vis a vis repayment obligations and cash balance of Rs. 0.80 crore as on March 31, 2021(Prov.). Current ratio of the firm stood at 1.08x as on March 31, 2021(Prov.) with overall gearing at 1.07x as on March 31 2021 providing sufficient headroom to raise any additional debt. To address the cash flow mismatch on account of covid-19 impact the company had availed interest moratorium and working capital term loan provided by lender under Covid-19 relief. Thereby, the average utilization of fund based working capital limits were almost 99% utilized for trailing 12 months ending June 30, 2021. However, the company repaid the interest moratorium amount in entire by March 31, 2021 upon improvement in cashflows.

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 Sector](#)
[Criteria for Short Term Instruments](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

About the firm

Telangana based, L Sudershan Reddy Contractor (LSR) started commercial operations in the year 1971 as a proprietorship concern promoted by Mr.L.Sudershan Reddy. The firm's registered office is located at Vikarabad, Telangana. LSR is engaged in construction of roads, buildings, railway bridges and canals for irrigation projects. LSR purchases raw materials from the suppliers near by the project location. LSR has its own crusher plant for crushing the concrete stones with capacity of 150 tons per hour and 15 tipper vehicles for transportation of concrete stones to the project location. The firm majorly gets the contracts from Telangana government and South Central Railways by participating in tenders. As on July 16, 2021, the firm has an outstanding order book value of Rs. 37.49 crore.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	14.22	13.67
PBILDT	1.86	1.99
PAT	0.57	0.65
Overall gearing (times)	0.81	1.07
Interest coverage (times)	3.48	3.35

A: Audited; Prov.: Provisional;

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of the best available information and has classified L Sudershan reddy as "Issuer Not cooperating" vide its press release dated January 13, 2021.

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.50	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	4.50	CARE B+; Stable	-	1)CARE B+; Stable (04-May-20)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4	-	1)CARE A4 (04-May-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

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

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