

Gaddam Pattabhi Reddy

February 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	15.00	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable; Issuer Not cooperating)	Issuer Not Cooperating; Revised from CARE BB; Stable(Double B; Outlook: Stable) Based on best available information*
Total	15.00 (Rupees Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Gaddam Pattabhi Reddy (GPR) to monitor the rating vide e-mail communications/ letters dated January 23, 2020, February 03, 2020, February 04, 2020, February 06, 2020 and February 07, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the rating. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating. The rating on Gaddam Pattabhi Reddy bank facilities will now be denoted as **CARE BB-; Stable; 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.

Detailed Rationale & Key Rating Drivers

At the time of last rating on December 19, 2018 the following were the rating strengths and weaknesses

Key Rating Weaknesses

Small scale of operations due to nature of business

The firm's scale of operation marked by total operating income stood small at Rs. 1.58 crore in FY18 due to the nature of business. The primary source of income is the professional fee which is received from the clients for the auditing services provided by the firm. However, since the proprietor leases out his various properties and earns monthly rental income, it shows assured revenue visibility for the tenure of the lease agreements which can be mutually extended by either parties.

Volatility of real estate markets

A property cycle is a sequence of recurrent events reflected in demographic, economic and emotional factors that affect supply and demand for property subsequently influencing the property market. There are peaks and lows in the cycle. At peak, the market is usually tightest-occupancy rates are highest and rental growth is greatest and the adverse during the lows of the industry cycle. In case, the real estate market of Bangalore slows down or there happens to be any political uncertainties, the same will impact the cash flows of the firm.

Presence in a highly fragmented industry

The firm is operating in highly fragmented industry, where in it witness intense competition from both the organized and largely unorganized auditing firms. The presence of various audit firms in the market can result in price competition affecting the profitability margins of the audit firms operating in the industry.

Key Rating Strengths

Long track record of the firm and vast experience of the proprietor in auditing field

The firm was established in 1986 as an auditing firm named "Gaddam Pattabhi Reddy & Co." by Mr. G. Pattabhi Reddy, who is a qualified Chartered Accountant and the proprietor of the firm. Mr. G. Pattabhi Reddy holds a vast experience in auditing field which spreads over three decades. The proprietor is assisted by a qualified set of professionally qualified team which enables smooth functioning of the firm.

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

* Issuer noncooperation based on best available information

Revenue contribution from diversified lessees

The revenue profile of GPR is diversified with lease rentals receivable from various parties. The proprietor has entered into a lease agreement with more than 10 lessees for the various properties owned by the proprietor. However, the financial performance of the lessee shall remain critical from credit perspective, for repayment of LRD loan by the lessors.

Lease expiry date spread out, thereby reducing vacancy risk and in-built rental escalation clause

The lease agreements are entered for duration ranging from 5-10 years. The lease is based on a model with 5%-10% escalation in rentals every year. The tenure of the lease agreement considering the aforementioned escalation would cover the entire LRD loan. Furthermore, the lessees need to give a notice for a period of 3 months in event of termination of lease, which would give the proprietor some cushion to find new tenants.

Structured payment mechanism for lease rental development (LRD) loans along with escrow arrangement for debt servicing

The loan is backed by lease rentals assigned against the property. The loan is operated through an escrow mechanism in place with all the cash flows being received in the escrow account and payments being made as per the structured repayment schedule.

Financial risk profile characterized by comfortable capital structure and debt coverage indicators

The capital structure of the firm remained comfortable during the review period. The debt equity ratio stood below unity during the review period. The overall gearing of the firm improved from 1.69x as on March 31, 2016 to 0.47x as on March 31, 2018 due to increase in tangible net worth. Furthermore, the proprietor has infused capital to the tune of Rs. 0.85 crore and Rs. 3.47 crore in FY17 and FY18 respectively.

The debt coverage indicators of the firm stood comfortable during the review period. The PBILDT interest coverage ratio improved from 20.98x in FY16 to 62.57x in FY18 due to increase in PBILDT levels. However, total debt/GCA deteriorated from 6.16x in FY16 to 7.76x in FY17 due to increase in total debt levels on account of increase in unsecured loans from related parties (interest free) coupled with decrease in cash accruals. Further, total debt/GCA improved to 4.82x in FY18 at the back of increase in cash accruals.

Analytical Approach: Standalone

Applicable Criteria

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

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

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

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

[Rating Methodology - Service Sector Companies](#)

About the Firm

Gaddam Pattabhi And Company was established in the year 1986 as an auditing firm. Mr. Gaddam Pattabhi Reddy is a qualified Chartered Accountant and proprietor of the firm. The firm is engaged in providing auditing services and other professional services to corporates and individuals. Apart from the professional income, Mr. Gaddam Pattabhi Reddy also earns income from leasing out his properties for commercial purpose. The proprietor owns five properties at various locations in Bangalore city which has been leased out to various lessees.

Brief Financials (Rs. crore)	FY17(A)	FY18 (A)
Total operating income	0.81	1.58
PBILDT	0.50	1.18
PAT	0.03	0.42
Overall gearing (times)	0.87	0.47
Interest coverage (times)	15.22	62.57

A-Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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-Term Loan	-	-	March, 2028	15.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information

**Issuer not cooperating; based on best available information*

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	15.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information	-	1) CARE BB; Stable (19-Dec-18)	-	-

**Issuer not cooperating; based on best available information*

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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