

L Sudershan Reddy Contractor

May 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	3.50	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Short term Bank Facilities	2.00	CARE A4 (A FOUR)	Assigned
Total	5.50 (Rupees Five crore and fifty lakh only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of L Sudershan Reddy Contractor are tempered by small scale of operations with fluctuating total operating income and low networth base, Stretched receivable and creditor days, highly fragmented and competitive civil construction industry with tender based nature of operations and constitution of entity as proprietorship with inherent risk of withdrawal of capital.

The ratings, however, derives its strengths from long track record and experience of the proprietor for more than five decade in the civil construction, Satisfactory profitability margins albeit fluctuation during review period, comfortable capital structure and debt coverage indicators, stable outlook of construction Industry and Medium term Visibility from order book position of Rs. 19.67 cr as on March 31, 2020.

Key Rating Sensitivities

Positive:

- Improve in scale of operations beyond Rs. 30 crore while maintain its profitability margins at existing level.
- Timely receipt of payments from its customers

Negative:

- Deterioration in overall gearing beyond 2.50x in future years.

Key Rating Weaknesses

Small scale of operations with fluctuating total operating income and low net worth base

Despite long track record, the scale of operations of the firm remained small at Rs. 11.61 crore during FY19 with low networth base of Rs.3.77 crore as on March 31, 2019 as compare to other peers in the industry.

The total operating income (TOI) of the firm has been fluctuating during review period. The total operating income decreased from Rs. 12.59 crore in FY18 to Rs. 11.61 crore in FY19 on account of decrease in execution of orders. Furthermore, the firm has achieved total operating income of ~Rs.14.00 crore in FY20 (Prov.)

Highly fragmented and competitive civil construction industry with tender based nature of operations

L Sudershan Reddy Contractor is operating in highly competitive and fragmented industry. The Firm witnesses intense competition from both the organized and largely unorganized players as the projects are tender-based and the revenues are dependent on the Firm's ability to bid successfully for these tenders. This fragmented and highly competitive industry results into price competition thereby affecting the profitability margins of the companies operating in the industry.

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

LSR, being a proprietorship concern, is exposed to inherent risk of the promoter's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the proprietor. Moreover, proprietorship business has restricted avenues to raise capital which could prove a hindrance to its growth. Furthermore, there was capital withdrawal of Rs. 0.66 crore

Stretched receivable and creditor days

The firm operates in working capital intensive nature of operations. Though the operating cycle of the firm stood negative in FY19 due to high creditor days at 150 days. The firm receives the payment from Telangana government and south central railways on an average of 90-120 days and avails the credit period from its suppliers on average of 90-150 days. The average utilization of overdraft facility of the firm stood at 85% in the last 12 months ending March 31, 2019.

Key Rating Strengths

Long track record and experience of the proprietor for more than five decade in the civil construction industry

The firm was established in the year 1971 by Mr. L Sudershan Reddy. He has an experience of around 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 during review period

The firm has satisfactory profitability margins albeit fluctuating during the review period. The PBILDT margin was remained in the range of 15.42%-17.45% as the profit margins are dependent on nature of work undertaken by the firm coupled with fluctuation in raw material prices.. Due to fluctuation in interest, depreciation cost and PBILDT in absolute terms , the PAT margin of the firm also fluctuating in the range of 4.61%-3.74%, however remained satisfactory..

Comfortable capital structure and debt coverage Indicators

The capital structure of the firm remained comfortable during the review period. The overall gearing ratio improved from 2.52x as on March 31,2018 to 1.25x as on March 31,2019 due to decrease in long term debt at back of repayment of term loan and along with increase in tangible net worth by way of accretion of net profits. The debt equity ratio of the firm remained below unity for the last three balance sheet date ended March 31, 2019.

The debt coverage indicators of the firm remained comfortable marked by total debt/GCA which improved to 4.06x in FY19 as compared to 5.09x in FY18 due to decrease in term loans and unsecured loans. Further, the PBILDT interest coverage ratio marginally improved from 2.80x in FY18 to 2.86x in FY19 due to increase in PBILDT in absolute terms.

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 Government of India has undertaken several steps for boosting the infrastructure development and revives the investment cycle. 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.

Medium-term revenue visibility from order book position of Rs.19.67 crore as on March 31, 2020

The Firm has an outstanding order book position of Rs.19.67 crore as on March 31, 2019 which is expected to be completed by March 2021 .The current order book is 1.60x of the total operating income in FY19.

Liquidity Analysis: Adequate

The current ratio of the firm is above unity during the review period at 1.79x as on March 31, 2018 due to relatively high current assets on account of high sundry debtors and inventory as compared to current liabilities as on closing balance date. The firm has cash and cash equivalents of Rs.0.06 crore

Analytical Approach: Standalone

Applicable criteria:

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

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

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

[Rating Methodology - Infrastructure Sector Ratings](#)

[Criteria for short term instruments](#)

About the firm

Telangana based, L Sudershan Reddy Contractor(LSR) was incorporated and 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. 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 March 31, 2020, the firm has an outstanding order book value of Rs. 19.67 crore which is expected to be completed by December 2021.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	12.59	11.61
PBILDT	2.20	1.79
PAT	0.81	0.65
Overall gearing (times)	2.52	1.25
Interest coverage (times)	2.80	2.86

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and classified L Sudershan reddy Contractor as “Issuer not cooperating” vide PR dated October 17, 2019

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-Cash Credit	-	-	-	3.50	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	3.50	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A4	-	-	-	-

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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