

Rating Update

October 16, 2018 | Mumbai

G. Eshwar Reddy and Sons

Update as on October 16, 2018

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

- Capital expenditure (capex) and its funding mix
- Timely and efficient execution of projects
- Working capital management

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from G. Eshwar Reddy and Sons (GER) which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

Set up in 1954, GER undertakes execution of civil construction projects mainly related to road construction in Andhra Pradesh and Telangana. The company is promoted by Mr. G. Eshwar Reddy and his family members.

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Rating Rationale

October 11, 2017 | Mumbai

G. Eshwar Reddy and Sons

Rating Action

Total Bank Loan Facilities Rated	Rs.18 Crore
Long Term Rating	CRISIL BB-/Stable
Short Term Rating	CRISIL A4+

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL's ratings on bank facilities of G. Eshwar Reddy and Sons (GER) continue to reflect the benefits derived by GER from the extensive industry experience of its promoters and its longstanding relationships with key principals. The ratings also reflect GER's moderate financial profile albeit constrained by low net worth. These rating strengths are partially offset by GER's working-capital-intensive operations and its modest scale of operations in highly fragmented and competitive civil construction industry.

Key Rating Drivers & Detailed Description Strengths

*** Extensive experience of promoters in civil construction industry:** GER benefits from its promoters' extensive industry experience. The main promoter of GER, Mr. G Eshwar Reddy, has an experience of over four decades as contractor for civil works in Andhra Pradesh. Over the years, GER has developed strong relationships with its major principals and raw material suppliers. Also, the promoters are high-net-worth individuals and have developed strong relationships with the lending community. CRISIL believes that GER will benefit from the extensive industry experience of its promoters over the medium term.

*** Moderate financial risk profile, albeit constrained by below-average net worth:** GER's financial risk profile is marked by comfortable gearing and debt protection metrics, though it is constrained by a below-average net worth. The company's gearing is at around 1.7 times as on March 31, 2017. With no major debt-funded capex plans, the gearing is expected to remain comfortable over the medium term. GER has moderate debt protection metrics as indicated by its interest coverage and net cash accruals to total debt ratios of 3.1 times and 0.25 times, respectively, for 2016-17.

Weaknesses

*** Working-capital-intensive operations:** GER's operations are working-capital-intensive, with high gross current assets (GCAs) of around 184 days of operating income as on March 31, 2017. The high GCA is primarily on account of high work-in-progress (unbilled revenues) at 97 days of cost of sales. The company normally receives the payment from its customers in 30 to 60 days. However, there are occasional delays resulting in stretch in working capital requirements.

*** Modest scale of operations in highly fragmented and competitive civil construction industry:** With revenue of Rs.24.5 crore in 2016-17, GER is a modest player in the highly competitive civil construction segment. The company had a below-average net worth of Rs.6.5 crore as on March 31, 2017. The modest size limits the company's ability to participate in tenders of larger value and prevents the company from taking advantages arising out of economies of scale, thus limiting its scope for growth.

Outlook: Stable

CRISIL believes GER will continue to benefit over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations and profitability while a comfortable capital structure is maintained. The outlook may be revised to 'Negative' in case of substantial decrease in revenues or operating margins or debt-funded capital expenditure or a stretched working capital cycle, leading to deterioration in the financial risk profile.

About the Company

Set up in 1954, GER undertakes execution of civil construction projects mainly related to road construction in Andhra Pradesh and Telangana. The company is promoted by Mr. G. Eshwar Reddy and his family members.

GER is estimated to have reported a profit after tax of around Rs.1.97 crore on revenue of Rs.24.5 crore in fiscal 2017, against Rs.1.53 crore and revenue of Rs.24.93 crore in fiscal 2016.

Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs. Cr.	24.5	24.9
Profit After Tax (PAT)	Rs. Cr.	1.97	1.53
PAT Margins	%	8.0	6.1
Adjusted Debt/Adjusted Net worth	Times	1.66	1.7
Interest coverage	Times	3.06	2.20

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs. cr.)	Rating assigned with outlook
NA	Secured Overdraft Facility	NA	NA	NA	10.0	CRISIL BB-/Stable
NA	Bank Guarantee	NA	NA	NA	6.0	CRISIL A4+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2.0	CRISIL BB-/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	12	CRISIL BB-/Stable		No Rating Change		No Rating Change	09-04-15	CRISIL BB-/Stable		--	--
Non Fund-based Bank Facilities	LT/ST	6	CRISIL A4+		No Rating Change		No Rating Change	09-04-15	CRISIL A4+		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	6	CRISIL A4+	Bank Guarantee	5	CRISIL A4+
Proposed Long Term Bank Loan Facility	2	CRISIL BB-/Stable	Proposed Long Term Bank Loan Facility	3	CRISIL BB-/Stable
Secured Overdraft Facility	10	CRISIL BB-/Stable	Secured Overdraft Facility	10	CRISIL BB-/Stable
Total	18	--	Total	18	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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