Om Infra Limited (erstwhile Om Metals Infraprojects Limited)

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	101.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	637.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	**738.00 (Rs. Seven Hundred Thirty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Om Infra Limited (OIL) continue to derive strength from the experience of the promoters, company's established track record in project execution, strong market position in the EPC of hydro mechanical and irrigation projects, its healthy order book position and stable operational performance. The ratings, however, are constrained on account of project execution risk associated with the hydro power and real estate projects, moderate financial risk profile marked by modest debt coverage indicators, its continued support extended to its group companies in real estate sector which are yet to give returns and working capital intensive nature of operations.
CARE also takes cognizance of the subsequent order by the Hon'ble High court of Rajasthan, with respect to sub judice matter with respect to OIL's Road SPV Bhilwara Jaipur Toll Road Private Limited (BJTRPL), allowing the payment which the State of Rajasthan had already deposited in the Escrow Account to be utilized by the lenders to appropriate the amount standing in the credit of the Escrow Account against their exposure.

Rating Sensitivities

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

- Sustained growth in top-line by around 10-15% p.a.
- Timely execution of order book resulting in improved revenues
- Improvement in PBILDT and working capital cycle from current levels and its sustenance going forward.
- Favorable final verdict with respect to arbitration claims pertaining to BJTRPL and receipt of claim amount in line with the envisaged levels.

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

- Decline in scale of operations and contraction in the profitability margins from the current levels
- Elongation in operating cycle from current levels
- Adverse industry factors or macro -economic factors affecting the company

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters: OIL is promoted by Om Kothari Group; the promoter of the company Mr. C P Kothari has an experience of about 5 decades in executing engineering contracts for hydel and irrigation projects. He is ably assisted by his two brothers who also have substantial industrial experience and look after the day-to-day affairs of the company.

Strong market position of OIL with established track record: OIL is one of the leading players in the execution of hydro mechanical projects and has been in the industry for over four decades. OIL has successfully executed more than 60 hydro mechanical and irrigation projects across India and abroad. The vast experience of OIL in such projects brings them a significant advantage while bidding orders.

Healthy order book position albeit slow pace of execution: The company has an outstanding order book of Rs. 1663.50 crore as on October 31, 2021 (Rs.1397 crore as on December 13, 2020), which is equivalent to 6.96 times of FY21 (refers to period April 1 to March 31, 2021) income. The orders are to be executed over the next 3-3.5 years thereby providing revenue visibility in the medium term and includes orders for hydro mechanical contracts, township development, EPC works of the Dam/Reservoir etc. The current order book of the company is majorly from government and quasi government entities, where the counterparty risk is low. Further, the African projects are funded by credit worthy institutions like Exim Bank and World Bank. However, the order book is concentrated with top four orders contributing to more than 55% of the order book.
Although the orders are from reputed agencies, the progress of certain orders has been slow owing to various issues like, delay in civil work, land rehabilitation issue etc.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Stable operational performance
The company achieved gross revenue of Rs. 238.98 cr. in FY21 which is same as FY20 (Rs. 237.02 crore). Further, the profitability margins of the company have remained consistent with PBILDT and PAT margin of 20.40% (PY: 19.55%) and 4.59% (PY: 7.72%) respectively in FY21. Further during H1FY22 (refers to period April 1 to September 30), the company reported total operating income of Rs. 121.74 crore which PBILDT Margin of 22.18%.

Key Rating Weaknesses
Moderate financial risk profile: The debt profile of the company includes term Loans, loans from related parties in form of Inter corporate deposits, working capital borrowing and Mobilization advances. The overall gearing of the company has improved from 0.32 as on March 31, 2020, to 0.21x as on March 31, 2021, primarily on account decrease in mobilization advances towards project execution. The interest coverage ratio of the company has improved slightly from 2.03x in FY20 to 2.25x in FY21 on account of slightly better operating profits and decrease in interest cost due to lower mobilization advances during the year. TDGCA almost stood at same level of around 4x as on March 31, 2021. During H1FY22, interest coverage of company stood at 2.5x as against 2.02x during H1FY21.

High exposure to group companies: OMIL has extended support to its group companies engaged in real estate and operation of toll road in the form of loans and advances, equity investments and corporate guarantees. As on March 31, 2021, the company had total investments of Rs. 388.38 crore in group companies as against Rs. 390.33 crore as on March 31, 2020. Any additional investments in group concerns will be a key monitorable.
The company has exposure of Rs.149.57 crore in its toll project under joint venture, BJTRPL and has also extended corporate guarantee for the project against which outstanding debt is Rs.185 crore. State Govt. of Rajasthan had exempted toll collection from private vehicles from April 1, 2018, leading to lower revenue resulting in delays in debt servicing. BJTRPL had served a notice for termination of the concession agreement in respect of the toll road project on account of breach of terms & conditions and an arbitrator was appointed by Hon'ble High court of Rajasthan to resolve the matter. The Arbitrator subsequently issued an interim award u/s 17 of Arbitration Act dated October 30, 2019, directing the PWD-Rajasthan Government to deposit Rs. 191 crore in an escrow account and take back the possession of the project highway. State Government has now also allowed toll collection from private vehicles (earlier exempt since April 1, 2018) w.e.f. Nov 1, 2019. Hon'ble High court, in its order dated October 12, 2020, directed PWD, Rajasthan, to take over the project highway as directed by the Arbitrator and deposit Rs.191 crore with the lenders of BJTRPL in the escrow account till the final disposal of the appeal pending before the commercial court. However, during December 2021, Hon'ble High Court of Rajasthan ordered to allow the lenders to adjust the amount standing in credit of Escrow account against the exposure of BJTRPL. As articulated by the management, OIL has raised total claims of ~Rs.600 crore. Recovery of these advances or monetization of investment would be a critical credit monitorable.

Execution risks associated with hydro- power projects and real estate projects: The company is largely into the business of providing hydro mechanical solutions. The hydro mechanical projects include execution risks due to difficult terrain, geological conditions and dependence on EPC contractor for construction. Apart from the hydro mechanical solutions, the company is executing 1 real estate project namely Om Medows in Kota Rajasthan under OMIL and 1 project under Om Metals Consortium Private Limited. Real estate projects include execution risk and volatility in steel and cement prices etc. These risks can potentially lead to fluctuation in the sales and profits of the company. Further, the real estate industry is also facing issues like subdued demand, curtailed funding options, rising costs, restricted supply due to delays in approvals, etc. thereby resulting in stress on cash flows.

Working capital intensive nature of operations: The operating cycle of the company has improved slightly from 346 days in FY20 to 317 days in FY21 majorly on account of increased collection and inventory holding period. The major clients for the company include government clients which lead to delay in the realizations owing to the long and stringent process of approval of the payments. The inventory period also stood high owing to execution of various projects at the same time. The inventory also includes real estate inventory of Rs.70 crore from under construction project, Om Meadows of the company. No project debt has been availed for the real estate project. Against the funds deployed in the real estate project by the company, the returns are yet to come.

Liquidity: Adequate
The company has unencumbered cash and cash equivalents Rs. 9.72 crore as on September 30, 2021. Further, the company is estimated to have a gross cash accrual of around Rs. 29.00 crores in FY22 against debt repayment of around Rs. 6 crores in FY22. Further, company has modest capex requirements mainly for additional equipments and machinery for efficient execution of orders in hand. Working capital utilization remained high with average fund-based utilization of 85% for the past 12 months ending October 2021.

Industry Outlook
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. 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. A few measures include relaxation of Foreign

Direct Investment (FDI) norms for the sector, infrastructure status accorded to affordable housing and fund allocation for projects like development of 100 smart cities, Housing for All by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). In the short to medium term (1-3 years), projects from transportation, housing and urban development sector are expected to dominate the overall business for construction companies.
Given the importance of infrastructure sector to the Indian economy, government also helped the sector through policy initiatives. The sector outlook going forward, will depend on order book, ramp up of work at different sites, financial health of the companies & effectiveness of government support. Further, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Analytical approach: Standalone after factoring in the investments/ support towards group companies

Applicable Criteria
Criteria on assigning Rating Outlook and Credit Watch
Rating Methodology- Consolidation and Factoring linkages in Ratings
CARE's Policy on Definition of Default
Financial Ratios – Non-financial Sector
Criteria on rating of Short-Term Instruments
Criteria on rating methodology- Construction Sector
Liquidity Analysis of Non-Financial Sector entities

About the Company
Om Infra Limited (erstwhile, Om Metals Infraprojects Limited), incorporated in December 1971, is the flagship company of the Om Kothari Group, which is engaged in diversified activities including turnkey solution for hydro mechanical equipment for hydro power & irrigation projects, real estate development and civil construction. OMIL has its main fabrication unit for hydro mechanical division in Kota, Rajasthan. OMIL's total fabrication capacity is 15,000 Metric Tonnes Per Annum (MTPA). The company has also forayed into construction of Dams/Reservoirs on EPC basis (eligible to bid for orders amounting to Rs.2000 crore), along with fabrication and installation of hydro-mechanical equipment.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	237.02	238.98	121.74
PBILDT	46.35	48.75	27.00
PAT	18.30	10.96	10.50
Overall gearing (times)	0.32	0.21	-
Interest coverage (times)	2.03	2.25	2.50

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

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	ISIN	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 2026	18.00	CARE BBB-; Stable
Non-fund-based-LT/ST		-	-	-	637.00	CARE BBB-; Stable/ CARE A3
Fund-based - LT-Cash Credit		-	-	-	83.00	CARE BBB-; Stable

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-Term Loan	LT	18.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (07-Jan-20) 2)CARE BBB; Negative (10-Jun-19)	1)CARE BBB+; Stable (08-Oct-18)
2	Non-fund-based-LT/ST	LT/ST*	637.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (21-Dec-20)	1)CARE BBB-; Stable / CARE A3 (07-Jan-20) 2)CARE BBB; Negative / CARE A3+ (10-Jun-19)	1)CARE BBB+; Stable / CARE A2 (08-Oct-18)
3	Fund-based - LT-Cash Credit	LT	83.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (07-Jan-20) 2)CARE BBB; Negative (10-Jun-19)	1)CARE BBB+; Stable (08-Oct-18)

* 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based-LT/ST	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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Sachin Mathur
Contact no.: +91-11-4533 3206
Email ID: sachin.mathur@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
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.

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