Om Infra Limited (Revised)

October 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	101.35 (Enhanced from 101.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	636.65 (Reduced from 637.00)	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Revised from CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Total Bank Facilities	**738.00 (₹ Seven Hundred Thirty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the of ratings assigned to the bank facilities of Om Infra Limited (OIL) factors in stretched liquidity position of the company marked by an elongated operating cycle of around 8 months coupled with near-full utilization of fund based working capital limits consistently over the past few months. The ratings are further 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. However, the ratings 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.

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 operational cash flows on a sustained basis to improve liquidity and reduce dependence on working capital.

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

<u>Key rating weaknesses</u>

Working capital intensive nature of operations coupled with high reliance on bank borrowings: The operating cycle of the company has improved yet stood elongated at 241 days in FY22 (PY: 317 days) majorly on account of increased collection and inventory holding period. The company relies on bank borrowings to finance its working capital requirements with almost full utilisation of fund based working capital limits during past few months. 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 around Rs.70-75 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.

Moderate financial risk profile: The company achieved a total operating income of Rs. 289.85 cr in FY22 which is an improvement of 27% from FY21. Further, the profitability margins of the company moderated from 16.58% to 11.62% on account of higher contribution of supplies done during FY22 which has lower margins. Further, margins of the company were impacted due to increase in cost of raw materials like steel. The same resulted in net loss during FY22. Further, during Q1FY23

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

(refers to the period April 1, 2022 to June 30, 2022), the company reported a total operating income of Rs.118.41 cr. (Q1FY22: Rs. 51.91 cr.) with operating margin of 12.69%.

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 0.29 as on March 31, 2021, to 0.19x as on March 31, 2022, primarily on account decrease in mobilization advances towards project execution. The interest coverage ratio of the company deteriorated from 1.74x in FY21 to 1.11x in FY22 on account of lower PBILDT during FY22 coupled with higher interest cost. During Q1FY23, interest coverage of company stood at 2.49x as against 3.22x during Q1FY22.

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, 2022, the company had total investments of Rs. 377.94 crore in group companies as against Rs. 388.38 crore as on March 31, 2021. 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 was around 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 crores 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 key 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.

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. 3506.75 crore as on June 30, 2022 (Rs. 1663.50 crore as on October 31, 2021), which is equivalent to ~12 times of FY22 (refers to period April 1, 2021, to March 31, 2022) income. The company has got two orders from Uttar Pradesh Government and Rajasthan Government worth Rs. 1051 crores and Rs. 980 crores respectively in Q4FY22 (Refers to the period Jan 31, 2022 to March 31, 2022). 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.

Liquidity: Stretched
Working capital utilization remained high with average fund-based utilization of more than 95%. Further, the operating cycle of the company remains elongated at 241 days during FY22 since more than 64% of the receivables as on March 31, 2022 are due for more than 6 months. The company has unencumbered cash and cash equivalents Rs. 10.31 crore as on March 31, 2022. Further, the company is estimated to have a gross cash accrual of around Rs. 40.00 crores in FY23 against debt repayment of around Rs.29.00 crores in FY23. However, any delay in execution of the project will result in lower than envisaged cash accruals. Further, company has modest capex requirements mainly for additional equipment and machinery for efficient execution of orders in hand.

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

Applicable criteria
Criteria on assigning Rating Outlook and Credit Watch
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
Criteria on factoring in linkages with Parent JV Group

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, along with fabrication and installation of hydro-mechanical equipment.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	228.05	289.85	118.41
PBILDT	37.81	33.67	15.03
PAT	10.96	-0.25	7.72
Overall gearing (times)	0.29	0.19	-
Interest coverage (times)	1.74	1.11	2.49

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2026	18.35	CARE BB+; Stable
Non-fund-based-LT/ST	-	-	-	-	636.65	CARE BB+; Stable / CARE A4+
Fund-based - LT-Cash Credit	-	-	-	-	83.00	CARE BB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	18.35	CARE BB+; Stable	-	1)CARE BBB-; Stable (07-Jan-22)	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (07-Jan-20) 2)CARE BBB; Negative (10-Jun-19)
2	Non-fund-based-LT/ST	LT/ST*	636.65	CARE BB+; Stable / CARE A4+	-	1)CARE BBB-; Stable / CARE A3 (07-Jan-22)	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)
3	Fund-based - LT-Cash Credit	LT	83.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (07-Jan-22)	1)CARE BBB-; Stable (21-Dec-20)	1)CARE BBB-; Stable (07-Jan-20) 2)CARE BBB; Negative (10-Jun-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 instruments: CARE Ratings 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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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