

## OM Metals Infraprojects Limited

June 10, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	151.00	CARE BBB; Negative (Triple B; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook; Stable)
Long/Short term Bank Facilities	642.00	CARE BBB; Negative / CARE A3+ (Triple B; Outlook: Negative / A Three Plus)	Revised from CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook; Stable/ A Two)
<b>Total</b>	<b>793.00</b> <b>(Rs. Seven hundred and ninety three crore only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Om Metals Infraprojects Limited (OMIL) takes into account deterioration in the financial performance of the company in FY19 and elongation in the working capital cycle of the company. The ratings are also constrained on account of high exposure of OMIL towards group companies and project execution risks associated with the hydro power and civil projects. The ratings however derive comfort from the experience of the promoters, company's established track record in project execution, its strong market position in the EPC of hydro mechanical projects and healthy order book position.

Going forward, the ability of the company to improve its scale of operations and profitability, timely execution and realization of proceeds from orders and reduction in exposure to group entities shall remain key rating sensitivities.

### Outlook: Negative

The outlook has been revised to 'Negative' on account of weak financial performance, stretched liquidity and elongation in the working capital cycle of the company. The outlook may be revised to 'Stable' if the company exhibits improvement in its operational and financial performance, along with rationalization of its operating cycle and strengthening of its liquidity position.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Subdued financial performance in FY19:** The total operating income of the company deteriorated by 20.29% to Rs. 249.01 cr (PY: 312.40 cr ) in FY19 majorly on account of lower execution of the order book and non-achievement of milestones. The operating income also deteriorated due to non-recognition of real estate income in FY19 on adoption of IND AS. Further, the company also divested from its non-core business in FY19 which also impacted its operating income. Further, the profitability margins of the company also moderated compared to previous year as reflected by PBILDT and PAT margin of 22.35% and 6.44% respectively in FY19 as against PBILDT and PAT margin of 23.94% and 13.86% respectively in FY18. With decline in operating income as well as the profitability, the company reported Gross Cash Accruals of Rs. 27.87 cr in FY19 as against Rs. 58.41 cr in FY18.

**Working capital intensive nature of operations:** The operating cycle of the company got further elongated to 244 days as on 31<sup>st</sup> Mach 2019 as against 177 days as on 31<sup>st</sup> Mach 2018 mainly on account of high collection and inventory 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.

**High exposure towards group companies:** OMIL has extended support to its group companies in the form of loans and advances, equity investments and corporate guarantees. The company under its joint venture, BJTRPL has served a notice for termination of the concession agreement in respect of the toll road project on account of non-compliance of terms & conditions.

Going forward, recovery of these advances or monetization of investment would be a critical credit monitorable. Moreover the stretched liquidity position of the company may also impact its ability to provide support to its group companies where corporate guarantees are given.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Execution risks associated with hydro- power projects and real estate:** The company is largely into the business of providing hydro mechanical solutions and real estate. The hydro mechanical projects includes risks associated with the execution of a hydro power projects due to difficult terrain and geological conditions and real estate includes project 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.

#### Key Rating Strengths

**Experienced Promoters:** OMIL is promoted by the Om Kothari Group which is in existence since 1971. The promoter of the company, Mr. C P Kothari has an experience of over 4 decades in executing engineering contracts for hydel and irrigation projects. He is ably assisted by his two brothers who also have substantial industrial experience.

**Strong market position of OMIL with established track record:** OMIL is one of the leading players in the execution of hydro mechanical projects and has been in the industry from more than past three decades with successful execution of more than 60 hydro mechanical and irrigation projects across India and abroad.

**Healthy order book:** The company has a healthy order book position of Rs. 1411.21 cr (5.67x of the total operating income in FY19, refers to the period April 1 to March 31) as on May 31, 2019 which is expected to be executed over the next 2-3 years thus providing revenue visibility in the medium term and includes orders for hydro mechanical contracts, township development etc.

**Liquidity:** Despite elongation in the working capital cycle in FY19, the working capital utilization remained moderate at around 60%. Further, during FY19 the company had sold off its hotel division which provided some liquidity cushion to the company. The company had free cash and cash equivalents of Rs. 20.24 cr as on 31<sup>st</sup> March 2019.

**Industry Outlook:** India has a huge potential of ~145 GW of energy through hydropower. With only around 26% of the tapped potential, there is a huge opportunity available in the hydro power sector. However, the hydropower projects are set up in difficult terrains which make the execution difficult thereby leading to slower capacity addition in hydropower segment.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

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

#### About the Company

OMIL, 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's for hydro power & irrigation projects, real estate development and civil construction. OMIL has its main fabrication unit for the hydro mechanical division in Kota, Rajasthan with an installed capacity of 15,000 metric tonnes per annum (MTPA).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	312.40	249.01
PBILDT	74.79	55.66
PAT	43.3	16.04
Overall gearing (times)	0.23	0.17
Interest coverage (times)	4.51	3.02

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	-	-	September 2022	61.00	CARE BBB; Negative
Non-fund-based-LT/ST	-	-	-	642.00	CARE BBB; Negative / CARE A3+
Fund-based - LT-Cash Credit	-	-	-	90.00	CARE BBB; Negative

## 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	61.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (08-Oct-18)	1)CARE BBB+; Stable (05-Oct-17)	1)CARE BBB+; Stable (23-Mar-17) 2)CARE A- (13-Oct-16)
2.	Non-fund-based-LT/ST	LT/ST	642.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (08-Oct-18)	1)CARE BBB+; Stable / CARE A2 (05-Oct-17)	1)CARE BBB+; Stable / CARE A2 (23-Mar-17) 2)CARE A- / CARE A2+ (13-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (08-Oct-18)	1)CARE BBB+; Stable (05-Oct-17)	1)CARE BBB+; Stable (23-Mar-17) 2)CARE A- (13-Oct-16)
4.	Fund-based - ST- Standby Line of Credit	-	-	-	-	-	1)CARE A2 (05-Oct-17)	1)CARE A2 (23-Mar-17) 2)CARE A2+ (13-Oct-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – Ms. Jasmeen Kaur  
Group Head Contact no.- 011-45333245  
Group Head Email ID- [jameen.kaur@careratings.com](mailto:jameen.kaur@careratings.com)

### Business Development Contact

Name: Ms. Swati Agrawal  
Contact no. : 011-45333200  
Email ID : [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

### 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.

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**