Om Metals Infraprojects Limited

January 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	114.60 (reduced from 151.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Long term/Short term Bank Facilities	637.00 (reduced from 642.00)	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BBB; Negative/CARE A3+ (Triple B; Outlook; Negative/ A Three Plus)
Total Facilities	751.60 (Rs. Seven hundred and ninety three crore only)		

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 H1FY20, continued support extended to its group companies in real estate sector which are yet to give returns and elongation in working capital cycle also reflected from increased working capital utilization. The ratings are also constrained on account of project execution risk associated with the hydro power and real estate 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.

CARE also take cognizance of interim order issued by the arbitrator appointed by Hon'ble High court of Rajasthan 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

Rating Sensitivities

Positive Sensitivities

- Increase in scale of operations and profitability by 15%-20% consistently for 2-3 years
- Timely execution of order book resulting in improved revenues
- Improvement in operating cycle from current levels on account of lower collection and inventory holding period

Negative sensitivities

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Subdued financial performance in FY19 and H1FY20: The total operating income of the company deteriorated by 20.29% to Rs. 247.96 cr (PY: 314.26 cr) in FY19 majorly on account of lower execution of the order book and non-achievement of milestones in some projects. .

Further, during H1FY20, OMIL reported a total income of 104.79 cr as against Rs. 134.09 cr in H1FY19. The execution was low in H1FY20 on account of heavy rains in Madhya Pradesh, Uttar Pradesh and Tamil Nadu. Further, the company has also commenced work of three of its projects namely Arun 3, Kundah and Isharda Dam in Q2FY20. Since the projects are at initial stages of execution, the revenue was not booked on account of non-achievement of milestones.

Further, the profitability margins of the company slightly moderated 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 a Gross Cash Accruals of Rs. 27.87 cr in FY19 as against Rs. 58.41 cr in FY18.

Capital Structure: The overall gearing of the company stood at 0.30x as on 31st March 2019, however, adjusting for investments in subsidiaries, the gearing increases to 1.30x (PY: 1.11x).

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Further, the interest coverage ratio of the company moderated to 2.91x (PY: 4.41x) in FY19, moderated primarily on account of lower operating profits and increased interest cost due to higher working capital utilization during the year.
With increase in debt outstanding as on 31st March 2019 and lower PBILDT, the total debt to GCA of the company has increased from 2.62 years to 7.02 years.

Working capital intensive nature of operations: The operating cycle of the company got further elongated to 281 days as on 31st March 2019 as against 175 days as on March 31, 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. The inventory also includes real estate inventory of Rs.73 crs from under construction project, Om Meadows of the company. While no project debt has been availed for the real estate project, the customer advances received were Rs.19 crs against total funds deployment of Rs.65 crs in the project. Against the funds deployment in the real estate project by the company, the returns from the same are yet to come.

High exposure towards 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. The total exposure to group companies stood at Rs.471.44 crs (PY: Rs. 398.52 cr) as of March 31, 2019. This includes investments in two real estate project companies viz Om Metals Consortium Private Limited and Om Metals Consortium (Partnership). Om Metal Consortium Pvt Ltd is developing a residential project in Jaipur with a project cost of Rs. 470 cr. The company has availed a debt of R. 7.5 cr for the project. Cost of Rs. 380 cr has been incurred funded through customer advances of Rs. 150 cr and remaining through investment by OMIL. The funds deployment in the project has been greater than the customer advances received in the project thereby leading to increased support /investments from OMIL.
Om Metals Consortium Partnership holds a land parcel in Bandra Mumbai. Development on the project has not commenced yet.
The company under its joint venture, BJTRPL has exposure of Rs.128.69 crs in the toll project and has also extended corporate guarantee for the project against which outstanding debt is Rs.185 cr.
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. JTRPL has 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 has 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.
Going forward, recovery of these advances or monetization of investment would be a critical credit monitorable.

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. Further, the real estate projects being executed by the company and its subsidiary is exposes it to execution and salability risk pertaining to real estate industry. The real estate industry is facing issues on many fronts including 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: 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 though concentrated: The company has a healthy order book position of Rs. 1531.37 cr (6.18x of the total operating income in FY19, refers to the period April 1 to March 31) as on December 15, 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. However, the order book of the company is concentrated with two projects contributing to around 55% of the total orders as on 15th December 2019

Liquidity : Stretched
The liquidity position of the company remained stretched with working capital utilization of 96.81% for the past 12 months ending October 2019. The company made a GCA of Rs. 27 cr in FY19 whereas the repayments are in the range of Rs. 12-26 cr. However, OMIL had free cash and cash equivalents of Rs. 1.50 cr as on 27st December 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 after factoring in the exposure towards group companies

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Construction Sector
Rating Methodology - Factoring Linkages in Ratings
Criteria for Short Term Instruments
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).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	314.26	247.96
PBILDT	73.09	53.76
PAT	43.3	16.04
Overall gearing (times)	0.24	0.30
Interest coverage (times)	4.41	2.91

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	24.60	CARE BBB-; Stable
Non-fund-based-LT/ST	-	-	-	637.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Cash Credit	-	-	-	90.00	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 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	24.60	CARE BBB-; Stable	1)CARE BBB; Negative (10-Jun-19)	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	637.00	CARE BBB-; Stable / CARE A3	1)CARE BBB; Negative / CARE A3+ (10-Jun-19)	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-; Stable	1)CARE BBB; Negative (10-Jun-19)	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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
A. Financial covenants	• Minimum DSCR to be at 1.25x • TOL/TNW< 3x
B. Non Financial Covenants	• Promoter shares in borrowing entity should not be pledged to any Bank/NBFC/Institution without prior consent • The borrower should not induct in its board a person whose name appears in willfull defaulter list of RBI/Credit Information Companies

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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