Om Metals Infraprojects Limited

December 21, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	101.00 (Reduced from 114.60)	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 the ratings assigned to the bank facilities of Om Metals Infraprojects Limited (OMIL) 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 and healthy order book position. CARE also takes cognizance of the order by the Hon'ble High court of Rajasthan, with respect to OMIL's road SPV Bhilwara Jaipur Toll Road Private Limited (BJTRPL), directing PWD- Rajasthan Government, to take over the project highway as directed by the Sole Arbitrator and deposit Rs.191.79 crore with the lenders of BJTRPL in the escrow account till the final disposal of the appeal pending before the commercial court.

The ratings, however, are constrained on account of project execution risk associated with the hydro power and real estate projects, deteriorating financial performance during FY19 and FY20, which further got impacted during H1FY21 owing to Covid pandemic, continued support extended to its group companies in real estate sector which are yet to give returns and elongation in working capital also reflected from increased working capital utilization.

Rating Sensitivities:

Positive sensitivities:

- 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 sensitivities:

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

OMIL 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 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 for over four decades. OMIL has successfully executed more than 60 hydro mechanical and irrigation projects across India and abroad. The vast experience of OMIL in such projects brings them a significant advantage while bidding orders.

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

Healthy order book position

The company has an outstanding order book of Rs.1397 crore as on December 13, 2020 (Rs. 1531.37 crore as on Dec 19, 2019), which is equivalent to 5.89 times of FY20 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 (IND AAA; Stable) and World Bank. However, the order book is concentrated with top four orders contributing to more than 70% of the order book.

Key Rating Weaknesses

Subdued financial performance in FY20 and H1FY21

The total operating income of the company declined by 4% to Rs.237.02 cr (PY: 247.96 crore) in FY20 majorly on account of slower execution of order book resulting in non-achievement of milestones in some projects. The execution works got impacted by elongated monsoon and Covid pandemic during FY20. The company, however, sustained its profitability margins with PBILDT and PAT margins of 19.55% (PY: 21.68%) and 7.61% (PY: 6.69%) respectively in FY20.

During H1FY21, the company reported a decline in total operating income at Rs.80.08 crore as against Rs.104.79 crore during H1FY20 on account of Covid-19 pandemic, which impacted the execution works. The construction activities on various sites of OMIL were temporarily halted due to the lockdown imposed by the Ministry of Home Affairs. Even after lifting of lockdown, the construction activities continued to remain impacted due to labour shortages along with supply chain disruptions. The company is expecting to further improve its pace of execution from Q3FY21 onwards.

Moderation in Financial Risk Profile

The overall gearing of the company has increased from 0.30x as on March 31, 2019 to 0.36x as on March 31, 2020 primarily on account increased mobilization advances and working capital borrowings. The overall gearing after adjusting for investments in subsidiaries and taking into account the debt where OMIL has furnished corporate guarantees further deteriorated from 2.17x as on March 31, 2019 to 2.85x as on March 31, 2020.

The interest coverage ratio of the company has deteriorated from 2.91x in FY19 to 2.03x in FY20 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 March 31, 2020 and lower PBILDT, the total debt to GCA of the company has increased from 7.02 years to 9.42 years.

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. The total exposure to group companies stood at Rs.489.84 crore (PY: Rs. 471.44 Cr) as of March 31, 2020. This includes investments in two real estate project companies viz Om Metals Consortium Private Limited and Om Metals Consortium Partnership Firm. Om Metal Consortium Pvt Ltd is developing a high end residential project in Jaipur with a project cost of Rs.470 crore. Presently, the company has incurred cost of Rs. 421 crore on the project through customer advances of Rs. 160 crore, debt of Rs. 21 crore and balance through loans and investments from OMIL. Om Metals Consortium Partnership holds a land parcel in Bandra Mumbai. Development on the project has not commenced yet, though the firm has completed the construction of the temporary transit camp.

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. As articulated by the management, OMIL has raised total claims to the tune of Rs.609 crore. 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 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 got further elongated to 346 days as on March 31, 2020 as against 281 days as on March 31, 2019 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.50 crore 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.20.50 crore against total funds deployment of about Rs.69 crore in the project. Against the funds deployed in the real estate project by the company, the returns are yet to come.

Liquidity: Stretched
The liquidity position of the company remained stretched with working capital utilization of 95.50% for the past 12 months ending September 2020. The company reported a GCA of Rs. 23.75 crore in FY20 and Rs. 13.90 crore in H1FY21 against debt repayment of Rs. 17.89 crore in FY21. However, the company had unencumbered cash and cash equivalents Rs.7.65 crore as on September 30, 2020.
The company had availed of moratorium for its fund based facilities with effect from March 1, 2020, for a period of six months towards deferment of their debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Analytical approach: Standalone after factoring in the investment/ 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
Rating Methodology-Consolidation
Liquidity Analysis of Non-Financial Sector entities

About the company:
Om Metals Infraprojects Ltd. (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 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)	FY19 (A)	FY20 (A)
Total operating income	247.96	237.02
PBILDT	53.76	46.15
PAT	16.67	18.10
Overall gearing (times)	0.30	0.36
Interest coverage (times)	2.91	2.03

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

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	-	-	-	11.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	11.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jan-20) 2)CARE BBB; Negative (10-Jun-19)	1)CARE BBB+; Stable (08-Oct-18)	1)CARE BBB+; Stable (05-Oct-17)
2.	Non-fund-based-LT/ST	LT/ST	637.00	CARE BBB-; Stable / CARE A3	-	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)	1)CARE BBB+; Stable / CARE A2 (05-Oct-17)
3.	Fund-based - LT-Cash Credit	LT	90.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jan-20) 2)CARE BBB; Negative (10-Jun-19)	1)CARE BBB+; Stable (08-Oct-18)	1)CARE BBB+; Stable (05-Oct-17)
4.	Fund-based - ST-Standby Line of Credit	-	-	-	-	-	-	1)CARE A2 (05-Oct-17)

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

	Detailed Covenants
A. Financial Covenants	• Minimum DSCR to be at 1.25x • TOL/TNW < 3x
B. Non- financial covenants	• The borrower should not induct into its Board a person whose name appears in the wilful defaulters list of RBI/CICs or any other institution as approved by the RBI from time to time. • Promoter shares in borrowing entity should not be pledged to any Bank/NBFC/Institution without prior consent • Diversify into non-core areas viz. business other than current businesses

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	**Fund-based - LT-Cash Credit**	Simple
2.	**Fund-based - LT-Term Loan**	Simple
3.	**Non-fund-based-LT/ST**	Simple

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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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.

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