



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Om Construction

February 26, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Bank Facilities- Long Term	2.40	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Assigned
2	Bank Facilities- Short Term	6.75	IVR A4 (IVR A Four)	Assigned
	Total	9.15		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Om Construction (“OC” or “the firm”) derives comfort from its experienced partners, proven project execution capability and reputed clientele with relatively low counter party payment risk. The ratings also factor in its improved revenue level in FY19 as against previous fiscals. These rating strengths are partially offset by its modest scale of operations with geographical concentration in its order book, highly fragmented & competitive nature of the construction sector, inherent risk as civil contractor along with its’ below average capital structure and debt protection metrics.

Key Rating Sensitivities

Upward revision factors: Procurement of new orders providing medium to long term revenue visibility leading to substantial and sustained improvement in the revenue and profitability with improvement in liquidity while maintaining the debt protection metrics.

Downward revision factors: Any decline in the revenue &/or profitability leading to deterioration in liquidity position and debt protection metrics.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Satisfactory track record and experienced Management

Om Construction has a track record of more than one decade. The partners of the firm have around ten years of business experience which has enabled the firm to bag repeated orders from government entities. The firm has adequate technical and project management capabilities to handle multiple projects at a time and has supported the overall performance.

Proven project execution capability

Over the past years, the entity has successfully completed many civil construction projects majorly in Uttar Pradesh and ensured timely completion of all its projects.

Key Rating Weaknesses

Small scale of operation with geographical concentration of order book

The total operating income of the firm remained erratic over the past three years during FY17-FY19. Moreover, notwithstanding an improvement in scale of operations from Rs.11.23 crore in FY18 to Rs.19.23 crore in FY19 the scale of operation of the firm remained small. The net worth base also remained small at Rs.3.58 crore as on March 31, 2019. Small scale of operations limits the economics of scale benefits and pricing flexibility. During 9MFY20, the firm has achieved a total operating income of Rs.9.1 crore. Further, the present unexecuted order book is entirely concentrated in the states of Uttar Pradesh and nearby regions indicating geographical concentration in its order book. However, the firm has adequate experience to execute projects in these locations.

Below Average capital structure and debt protection metrics

Om Construction capital structure remained below average with overall gearing ratio at 2.10x in FY19 (FY18:1.26x) driven by increase in term loans for procurement of construction



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equipment's during FY19 consequently Total debt/GCA also deteriorated to 8.61x in FY19 from 7.56x in FY18. Interest coverage ratio improved marginally to 2.83 times in FY19 (2.25 times FY18) backed by increase in absolute EBITDA to Rs.1.84 crore (Rs.1.18 crore in FY18). However, EBITDA margins has declined marginally to 9.43% in FY19 (10.50% in FY18) due to increase in proportion of cost of purchases with increase in total operating income.

Highly fragmented & competitive nature of the construction sector

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. The firm revenue is dependent on success of winning the tenders in a competitive bidding process; significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Inherent risk as civil contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the firm is civil constructions.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The firm is expected to generate cash accrual in the range of Rs.0.70-Rs.0.75 crore during FY20-FY21 which is tightly matched to its debt repayment obligations during the aforesaid period of ~Rs.0.60 crore. Further, its highly utilized bank limits indicates limited liquidity buffer.



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About the Firm

Om Construction was established in March 2005 at Mathura, Uttar Pradesh. The firm is engaged in civil constructions works such as road constructions and bridges for government departments. The firm is registered as Class “A” Contractor with the Govt. of Uttar Pradesh. The core competency of the firm lies in the areas such as infrastructure projects, road construction, and maintenance of roads. In Past, the firm has executed projects in the states of Uttar Pradesh under PWD departments. .

Financials (Standalone):

For the year ended*	(Rs. In crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	11.23	19.49
EBITDA	1.18	1.84
PAT	0.34	0.54
Total Debt	3.80	7.51
Tangible Net worth	3.02	3.58
EBITDA Margin (%)	10.50	9.43
PAT Margin (%)	3.03	2.77
Overall Gearing Ratio (x)	1.26	2.10

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Rating migrated to non-cooperating category with Brickwork Ratings at BWR B+(Stable)/ BWR A4 (Issuer did not Co-operate) on January 24, 2020.

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Bank Facilities-Fund Based	Long Term	2.40	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	-	-	-
2	Bank Facilities-Non-Fund Based	Short Term	6.75	IVR A4 (IVR A Four)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	2.40	IVR BB/Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	6.75	IVR A4