



Press Release

OP Gupta Contractor Private Limited

March 19, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	10.00	IVR BBB-; Under Credit Watch with Developing Implication (IVR Triple B Minus Under Credit Watch with Developing Implication)	Assigned
2	Short Term Bank Facilities	25.00	IVR A3; Under Credit Watch with Developing Implication (IVR A Three Under Credit Watch with Developing Implication)	Assigned
	Total	35.00 (Rs. Thirty-Five crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of OP Gupta Contractor Private Limited (OPGC) derives comfort from its long track record of operation under experienced promoters, proven project execution capability, reputed clientele, healthy order book giving visibility to revenue in the medium term, growth in scale of operations in FY20 and comfortable capital structure with satisfactory debt coverage indicators. These rating strengths are partially offset by its modest scale of operation with expected moderation in FY21, susceptibility of profitability to volatile input prices, presence in a highly competitive industry and tender driven nature of the business, regional concentration risk and high working capital intensity. The ratings remain under credit watch with developing implications owing to uncertainty in the operating scenario amidst Covid-19 pandemic and Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Rating Sensitivities

Upward factors

- Growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity
- Sustenance of the capital structure with improvement in debt protection metrics
- Increase in order book position and diversification in regional presence



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Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis
- Withdrawal of subordinated unsecured loans aggregating to Rs.2.45 crore and/or moderation in the capital structure with moderation in overall gearing to below 1.5x
- Increase in working capital intensity

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Long track record of operation under experienced promoters**

Mr Kailash Chandra Gupta, Managing director of OPGC, has over four decades of experience in the construction industry. This apart, other three directors, Meera Gupta (wife of Mr Kailash gupta), Sumit P Gupta and Deepak Gupta (son of Mr Kailash Gupta), are also having around a decade long experience in the similar line of business. The promoters are well assisted by an experienced team of professionals with considerable experience in the construction industry. Further, being in civil construction works since 1981, OPGC, has a considerable experience and a proven track record.

- **Proven project execution capability**

OPGC has started its operation from 1981 and has successfully completed many projects in and around Uttar Pradesh (UP), Madhya Pradesh (MP) and Utrkhand (UK) for various government departments. Thus, the company is enjoying a proven track record. In order to manage the projects in a better way and to grow in a balanced way, the promoters have a policy to take up short to medium term projects (1-2 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

The company is engaged in civil construction works like construction of Intake Well, Water Treatment Plant, Laying Pipeline, Earth Work & Road Reinstatement, Construction of Overhead Tanks, Construction of Bridges and Sewage Treatment Plant. Being registered as Class-A contractor the company undertakes projects from UP Jal Nigam, MP PWC etc. All the projects are funded under Government departments, thus having minimal risk of defaults.

- **Healthy order book giving visibility to revenue in the medium term**



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OPGC has a strong order book position comprising multiple contracts aggregating to Rs164.37 Crore as on December 31, 2020, (which is about 1.63 times of its FY20 turnover) to be executed within next 12 months, indicating a satisfactory near to medium term revenue visibility.

- **Growth in scale of operations though moderation expected in FY21**

The company's topline has exhibited growing trend during FY18-FY20. The company has registered a CAGR of ~45% during the period with a y-o-y growth of ~43% in FY20. The growth was due to increase in order execution coupled with increase in material supply works. Being an old and established organisation, bidding conversion ratio has been high which also in turn helped the company to increase the scale of operation. However, profit margins have been volatile, where EBITDA margin has been decreasing over the past years on account of bidding in lower rate due to high competition and PAT margin shows erratic trend which hovering around 5% during FY20. A moderation in turnover is expected in FY21 due to covid impact in Q1 which resulted in turnover during 10MFY21 was around Rs.56.10 crore.

- **Comfortable capital structure with satisfactory debt coverage indicators**

The capital structure of OPGC has been remaining comfortable as on the past three account closing dates. The adjusted tangible net worth of the company remained moderate at Rs.28.00 crore including subordinated unsecured loans amounting to Rs. 2.78 crore as on March 31,2020. With minimal debt in the capital structure the debt equity ratio and the overall gearing ratio stood at 0.06 and 0.08x respectively as on March 31, 2020. Total indebtedness of the company also remained comfortable marked by TOL/ATNW at 1.38x (adjusted 1.14x) as on March 31, 2020. Further, driven by a conservative capital structure the debt protection metrics of the company also remained comfortable over the past three fiscals. The interest coverage ratio and Total debt o GCA remained comfortable at 7.47x and 0.87 years in FY20.

Key Rating Weaknesses

- **Modest scale of operation**

The scale of operation of the company remained modest at Rs. 103.21 crore in FY20 despite its long track record of operations. Modest scale of operations in a highly competitive industry restricts the financial flexibility of the company to an extent.

- **Susceptibility of profitability to volatile input prices**



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Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts imparts comfort to an extent.

- **Presence in a highly competitive industry and tender driven nature of the business**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented 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. While the competition is perceived to be healthy, 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.

- **Regional concentration risk**

OPGC is predominantly working in the state of UP and some parts of MP & UK, hence has high degree of geographical concentration. However, long standing experience of the promoters in this segment and in the state of UP imparts comfort.

- **High working Capital intensity**

Construction business, by its nature, is working capital intensive as a large part of working capital remained blocked in earnest money deposits, margin required for issuance of bank guarantees and retention money. However, the collection period of the company has been improving to 46 days in FY20. The working capital requirement of the company is mainly funded through credit period availed from its creditors based on its established relationship and through bank borrowings. Further, the company has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of fund-based limit of OPGC was around ~46% for the last 12 months ended February 2021.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Adequate

The liquidity profile of OPGC is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.5 crore vis a- vis its about nil debt repayment obligations. Further, the OPGC has no planned capex or avilment of long-term debt which imparts comfort. Average working capital utilisation was comfortable at ~46% during last 12 months ending in February 2021, which imparts satisfactory liquidity buffer.

About the Company

OP Gupta Contractor Private Limited (OPGC) was established during 1981 as a proprietorship concern at Agra in Uttar Pradesh. Later during May 2004, the entity was converted into a private limited company and rechristened as OPGC. The company is engaged in civil construction works like construction of Intake Well, Water Treatment Plant, Laying Pipeline, Earth Work & Road Reinstatement, Construction of Overhead Tanks, Construction of Bridges and Sewage Treatment Plant. The company renders its service to the states like Uttar Pradesh, Madhya Pradesh and Uttarakhand and registered as Class-A contractor under Government of Uttar Pradesh, Madhya Pradesh. Day to day affairs of the company is look after by Mr. Kailash Chandra Gupta, Managing Director, along with other three directors and a team of experienced personnel. All the directors are adequately qualified and having over two decades of experience.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	72.17	103.21
EBITDA	6.82	6.40
PAT	4.64	5.21
Total Debt	6.66	5.12
Tangible Net worth	20.60	25.22



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EBITDA Margin (%)	9.75	6.34
PAT Margin (%)	6.43	5.05
Overall Gearing Ratio (x)	0.19	0.08

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The rating was moved to issuer non cooperating category by CRISIL as per PR dated Jan 27, 2020 due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Cash Credit	Long Term	10.00	IVR BBB-; Under Credit Watch with Developing Implication	-	-	-
2	Bank Guarantee	Short Term	25.00	IVR A3; Under Credit Watch with Developing Implication	-	-	-

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



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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
LT Fund Based Limits – CC	-	-	-	10.00	IVR BBB-; Under Credit Watch with Developing Implication
ST Non-Fund Based Limits – BG	-	-	-	25.00	IVR A3; Under Credit Watch with Developing Implication