

Press Release

Om Prakash Sharma Contractor

April 26, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 5.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 5.50 crore bank facilities of Om Prakash Sharma Contractor (OPSC). The outlook is '**Stable**'.

OPSC is a Gwalior-based firm established in 2002 by partners, Mr. Om Prakash Sharma and Mr. Mithlesh Kumar Sharma. The firm undertakes contracts for construction of roads and bridges and caters to the Madhya Pradesh Public Works Department.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of OPSC to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

OPSC is promoted by Mr. Om Prakash Sharma and Mr. Mithlesh Kumar Sharma who also manage the day to day operations of the firm. Management has an experience of around 18 years in the same line of business. The promoters' extensive experience is also reflected through the healthy revenue growth over the last 4 years through 2017-18. The firm's revenue grew at a CAGR of 35.00 percent to Rs.32.56 crore over the aforementioned period. OPSC's order book position remains healthy at Rs.42.00 crore as on 31 January, 2019. Hence, the healthy order book provides modest revenue visibility for the firm over the medium term. Acuité believes that the firm will continue to benefit through the promoters' extensive industry experience over the medium term.

- **Moderate financial risk profile**

OPSC's financial risk profile is marked by its average net worth, low gearing and moderate debt protection measures. The net worth improved to Rs.4.16 crore as on 31 March, 2018 as against Rs.4.04 crore in the previous year on account of stable revenue and increasing profitability, leading to higher accretion to reserves. The firm's gearing is estimated to be low at 1.10 times as on 31 March, 2018 as against 0.66 times in the previous year. The firm has followed a conservative financial policy in the past as reflected by its peak gearing of around 1.10 times as on March 31, 2018.

The total debt of Rs.4.55 crore consists of Rs.3.20 crore of short term debt obligations, term loan of Rs.1.10 crore and Rs.0.26 crore of unsecured loans from relatives and partners. The healthy revenue growth coupled with moderate profitability levels have resulted in healthy net cash accruals of Rs.2.78 crore during 2016-18, while the debt levels have remained low at around Rs.4.55 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio stood at 4.57 times in FY18 as against 8.10 times in the previous year. NCA/TD ratio stood 0.61 times in FY18. Acuité believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals and minimal reliance on debt.

Weaknesses

- **Tender based nature of operations and competitive industry**

The revenues of OPSC are generated through tender based orders floated by Madhya Pradesh Rural Road Development Authority (RRDA) coupled with the increasing competition in the industry.

- **Working capital intensive operations**

The working capital management is marked by Gross Current Assets (GCA) of 73 days in FY2018 as against 133 days in FY2017. The firm extends clean credit of around 90 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 1 days and 5 days in FY2018 as against 2 days and 4 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~100 percent in the last six months. Creditors stood at 121 days as on March 31, 2018. Acuité believes that the working capital requirements will continue to remain high.

Liquidity Position

OPSC has adequate liquidity marked by moderate net cash accruals. The company generated cash accruals of Rs.1.00 to Rs. 2.80 crore during the last three years through 2017 - 18. The cash accruals of the company are estimated to remain at around Rs.3.00 to Rs. 3.50 crore during 2019-21. The company's working capital operations are intensive as marked by Gross Current Asset (GCA) days of 73 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.53 crore as on March 31, 2018. The current ratio of the company stood below average at 1.03 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual.

Outlook: Stable

Acuité believes that the outlook on OPSC's rated facilities will remain 'Stable' over the medium term on account of its promoters' extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	32.56	27.11	13.79
EBITDA	Rs. Cr.	2.92	1.85	0.97
PAT	Rs. Cr.	1.94	1.41	0.59
EBITDA Margin	(%)	8.98	6.82	7.05
PAT Margin	(%)	5.97	5.21	4.30
ROCE	(%)	35.24	29.48	38.22
Total Debt/Tangible Net Worth	Times	1.10	0.66	0.77
PBDIT/Interest	Times	4.57	8.10	4.16
Total Debt/PBDIT	Times	1.28	1.22	1.61
Gross Current Assets (Days)	Days	73	133	151

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Feb-2018	Cash Credit	Long Term	1.50	ACUITE BB- (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)
17-Aug-2017	Cash Credit	Long Term	1.50	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Indicative)
10-May-2016	Cash Credit	Long Term	1.50	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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