

Press Release

Om Prakash Sharma Contractor

January 04, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 8.50 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.8.50 crore bank facilities of Om Prakash Sharma Contractor (OPSC). The outlook is '**Stable**.'

The rating factors in OPSC's established track of operations, experienced management, sustainable operating performance and moderate financial risk profile. However, tender-based operations coupled with high competitive intensity, geographic concentration and risk of capital withdrawal continue to constrain the rating.

Established in 2002, OPSC is a Gwalior-based partnership firm promoted by Mr. Om Prakash Sharma and Mr. Mithlesh Kumar Sharma. The firm undertakes construction of roads & bridges for Madhya Pradesh Public Works Department.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of OPSC to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**
 OPSC is promoted by Om Prakash Sharma and Mithlesh Kumar Sharma, who take care of day-to-day operations of the firm. With over 15 years of experience in the infrastructure construction business, the partners have enabled the firm to maintain good order flow by successful bidding of the tenders and also to obtain extended credit from long-standing relationships with its suppliers. The firm typically adds Rs.35.00-36.00 crore of new orders every year. While current order book of around Rs.32.00 crore is bit lower than its average new order flow due to Covid-19, the firm is also participating in the new tenders of around Rs.60.00 crore. Acuite believes that the firm would continue to gain strong support from the partners' extensive experience, even going ahead, which would protect OPSC's overall growth.
- Sustainable operating performance**
 OPSC's reported operating revenue in FY20 stood at Rs.15.23 crore vis-à-vis Rs.23.53 crore in FY19. While its EBITDA margin improved sharply to 11.40 per cent in FY20 from 8.06 per cent in FY19. However, these key operating parameters are not strictly comparable as two large road projects of around Rs.40.00 crore are being done through a joint venture – S.R.S-O.P.S. – although, bank facilities remain common for the joint venture and OPSC.

The joint venture recorded revenue of Rs.18.67 crore in FY20 compared to Rs.11.31. crore in FY19. Considering the joint venture's performance, OPSC has able to maintain its overall revenue at around Rs.34.00 crore mark in FY19 and FY20, each. Also, the combined EBITDA margin in FY20 was also at OPSC's historical level of 7-8 per cent. The projects under the joint venture are expected to be completed by March 2021, post which the joint venture would cease to exist.

While OPSC's performance in FY21 would be under pressure amid COVID-19 led disruptions, Acuite believes that the firm's overall operating performance would be sustainable over a medium term led by good order book. Besides current order book of around Rs.32.00 crore, the firm is also participating in the new tenders of around Rs.60.00 crore.

However, timely release of outstanding bank guarantees and sanction of additional bank guarantee limit remain a key as the firm has almost fully utilized its sanctioned bank guarantee limit. The firm has applied for additional bank guarantee limit of Rs.2.00 crore.

- **Moderate financial risk profile**

OPSC has a moderate financial risk profile marked by moderate gearing level, satisfactory coverage indicators and healthy debt protection matrix. In FY20, the firm's net worth improved to Rs.7.06 crore from Rs.5.48 crore in FY19. This was supported by internal accruals. The firm's net profit rose to Rs.0.94 crore in FY20 from Rs.0.89 crore in FY19.

The firm's conservative leverage policy has kept its gearing level at around one in the past. In fact, its debt to equity ratio has been below one since past two years. With higher net worth in FY20, OPSC's debt to equity ratio improved to 0.74 times from 0.93 times in FY19. Acuite believes that the firm's gearing level to improve to around 0.50 times over a medium with lower debt levels and higher net worth. OPSC is unlikely to have significant term-debt obligations as it has repaid its outstanding term debt in FY21. As on March 31, 2020, OPSC's total debt stood at Rs.5.21 crore, comprising term-debt obligations of Rs.0.22 crore, short-term debt of Rs.4.73 crore and Rs.0.26 crore of unsecured loans from related parties.

Lower debt and sustained operating profitability has enabled the firm to maintain its interest coverage ratio (ICR) at comfortable level of 3.6-4.6 times in the past. In FY20, ICR stood at about 4 times, vis-à-vis 3.56 times in FY19. Debt service coverage ratio (DSCR) was at 1.34 times in FY20. TOL/TNW too improved to 1.88 times in FY20 versus 2.62 times in FY19. While ICR is expected deteriorate in FY21 on account of dismal operating performance amid Covid-19, Acuite believes that both the coverage ratios would remain at moderate level of around 1.5-2 times in FY21 and would improve to around 4-6 times in FY22-FY23. Average TOL/TNW is also expected to be around 1.5 times over a medium term. However, lower-than-expected improvement in the operating performance mainly due to delay in completion of projects would impart a negative bias to the rating.

Weaknesses

- **Tender-based operations and high competitive intensity**

Business of OPSC is based on tender orders floated by Madhya Pradesh Rural Road Development Authority (MPRRDA) and public work department (PWD) and there is no significant reliance on subcontract work. Therefore, the firm's revenue is directly linked to the successful bidding of orders amidst high competitive intensity. High competitive intensity also impacts the pricing power of players.

- **Geographic concentration and risk of capital withdrawal**

OPSC operates at a smaller scale and its operations are confined to the Madhya Pradesh state. The firm is unlikely to expand its geographical presence, even going ahead. Further, being a partnership firm, there is a risk of capital withdrawal.

Rating Sensitivities

- Inability to maintain its revenue and operating profitability led by delay in completion of projects would deteriorate its liquidity position and overall financial risk profile
- Timely availability of bank guarantee limit crucial to maintain healthy order book

Material Covenants

No major covenants

Liquidity Position: Adequate

Sufficient net cash accruals (NCA) to its maturing term-debt obligations and improvement in current ratio indicate adequate liquidity position of OPSC. In FY20, the firm's NCA stood at Rs.1.86 crore compared to its debt repayment of Rs.1.23 crore. Going ahead too, the firm is expected to have adequate NCA. While the firm's term debt obligations for FY21 to FY23 would be up to Rs.0.22 crore, NCA is likely to be in the range of Rs.0.72 crore to Rs.2.48 crore during the same period. OPSC's current ratio also improved to 1.16 times in FY20 from 0.99 times in FY19 and is expected to improve further to 1.3-1.6 times over a medium term. The firm has unencumbered cash and bank balances of Rs.0.56 crore as on March 31, 2020. Also, in order to manage business from COVID-19 impact, the firm has availed Rs.0.24 crore of emergency COVID limit from the bank. Further, government is providing special impetus and relaxations due to COVID-19 outbreak to EPC projects which will further enhance the liquidity position of the firm.

Outlook: Stable

Acuite believes that OPSC would continue to maintain 'Stable' outlook over a medium term supported by established track record of operations coupled with strong experience of partners, moderate financial risk profile and expectations of sustainable operating performance. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile led by lower-than-expected operating performance.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	15.23	23.53
PAT	Rs. Cr.	0.94	0.89
PAT Margin	(%)	6.20	3.77
Total Debt/Tangible Net Worth	Times	0.74	0.93
PBDIT/Interest	Times	3.96	3.56

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

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Oct-2019	Cash Credit	Long Term	1.50	ACUITE BB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Reaffirmed)
26-Apr-2019	Cash Credit	Long Term	1.50	ACUITE BB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Reaffirmed)
16-Feb-2018	Cash Credit	Long Term	1.50	ACUITE BB-/Stable (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)

***Annexure – Details of instruments rated**

Name of the Facilities	Name of the Bank	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Bank of Baroda	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB-/ Stable (Reaffirmed)
Bank Guarantee		Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

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