

Press Release

Om Prakash Sharma Contractor

April 06, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	2.00	-	ACUITE A4 Assigned
Bank Loan Ratings	7.00	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	10.50	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the 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**'.

Acuite has also assigned the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.2.00 crore bank facilities of Om Prakash Sharma Contractor (OPSC).

Rationale for rating

The rating of OPSC takes into account the experienced management, established track record and moderate financial risk profile. The rating is however constrained by the firm's declining revenue and operating profitability margin, moderately working capital intensive nature of operations, tender-based operations coupled with high competitive intensity, geographic concentration and risk of capital withdrawal by the partners.

About the Company

OPSC established in 2002, is a Gwalior based partnership firm engaged in construction of roads & bridges for Madhya Pradesh Public Works Department (MPPWD).

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

OPSC has an established track record of over two decades in construction of roads & bridges for Madhya Pradesh Public Works Department (MPPWD). Since its inception, the firm was managed by its partners Late Mr. Om Prakash Sharma, Mr. Ankit Sharma and Mrs. Mithlesh Kumari Sharma. However as on March 31, 2022, the firm is now managed by Mr. Ankit

Sharma, Mrs. Mithlesh Kumari Sharma and Mrs. Sunita Sharma. The partners have an extensive experience of over 15 years in the infrastructure construction business which has 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.

Acuité believes OPSC will continue to benefit from its experienced management and established track record of operations.

Moderate financial risk profile

Financial risk profile of OPSC is moderate marked by modest network, low gearing and moderate debt protection metrics. The network of the firm stood improved albeit remained modest at Rs.7.20 Cr as on 31 March, 2022 as against Rs.6.67 Cr as on 31 March, 2021. The gearing (debt-equity) stood improved at 0.65 times as on 31 March, 2022 as against 0.83 times as on 31 March, 2021. The gearing of the firm is expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.5 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.1 Cr, short term bank borrowings of Rs.3 Cr and unsecured loans from directors of Rs.1 Cr.

The interest coverage ratio and DSCR both stood improved at similar level of 3.32 times respectively for FY2022 as against 2.87 times respectively for FY2021. The Net Cash Accruals to Total debt stood marginally improved at 0.29 times for FY2022 as against 0.28 times for FY2021. The Total outside liabilities to Tangible net worth stood improved at 1.64 times for FY2022 as against 2.09 times for FY2021. The Debt-EBITDA ratio stood marginally high at 2.41 times for FY2022 as against 2.36 times for FY2021.

Acuité believes that the financial risk profile of OPSC will remain moderate over the medium term due to its low debt levels vis-à-vis modest tangible net worth and comfortable debt protection metrics.

Weaknesses

Decline in revenue and profitability

OPSC's modest scale of operations reported decline in its revenue of Rs.10 Cr for FY2022 as against Rs.13 Cr in FY2021. The de-growth is primarily on account of low sales realisation during the year caused by some impact of covid induced restrictions during the first half of the year and further the firm did not receive any new work orders during the second half of the year.

The operating margin of the firm therefore stood declined at 9.06 percent in FY2022 as against 12.49 percent in FY2021 due to overall decrease in the scale of operations and increase in the administrative expenses whereas the net profit margin of the firm stood improved at 5.13 percent in FY2022 as against 5.01 percent in FY2021 on account of decrease in the interest cost during the year.

For the current year as on 11M FY2023, the firm has however achieved an improvement in its revenue of Rs.21 Cr as against Rs.8 Cr as on 11M FY2022 towards execution of its pending order book as on March 31, 2022 of Rs.48 Cr and are further expecting to generate revenue in the range of Rs.23 Cr to Rs.25 Cr by year end. Apart from this, the firm also received new orders worth Rs.58 Cr recently in March 2023 and therefore it has now an unexecuted order book of ~Rs.86 Cr. which is expected to be executed over the next 2-3 years which provides adequate revenue visibility over the medium term.

Acuité believes that ability of OPSC to improve its scale of operations and profitability over the medium term will remain a key rating sensitivity factor.

Moderately working capital intensive operations

The operations of OPSC are moderately working capital intensive marked by its Gross Current Assets (GCA) days of 137 days for FY2022 which stood moderately high albeit improved against 142 days for FY2021. This is on account of its inventory cycle which stood high at 68 days for FY2022 as against 39 days for FY2021. The increase in the inventory cycle is majorly driven by its work in progress at different sites and the stock of raw materials available with the firm for completing the work orders. The bank limits however remain low utilised for 6 months' period ended December 2022 on account of positive balance maintained by the

firm in their cash credit account as the firm had timely realisation of its work order billing from the government authorities. The receivable cycle of the firm stood at 2 days in FY2022 as against 0 days in FY2021 whereas the creditors stood high at 427 days in FY2022 as against 407 days in FY2021.

Acuité believes that the ability of OPSC to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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 state of Madhya Pradesh. 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

- Ability to improve scale of operations and profitability margins
- Ability to improve and maintain an efficient working capital cycle

Material covenants

None

Liquidity position - Adequate

OPSC has adequate liquidity position marked by sufficient net cash accruals (NCA) to its no maturing debt obligations. The firm generated cash accruals in the range of Rs.2 Cr to Rs.1 Cr during FY2020 to FY2022 against its no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.2 Cr to Rs.3 Cr for period FY2023-FY2024 against its repayment obligation of around Rs.0.25 Cr during the same period. The working capital operations of the firm are moderately intensive marked by its gross current asset (GCA) days of 137 days for FY2022 as against 142 days for FY2021 on account of high inventory cycle. The bank limits however remain less utilised for 6 months' period ended December 2022 on account of positive balance maintained by the firm in their cash credit account. Current ratio stands at 1.37 times as on 31 March 2022. The firm has maintained cash & bank balance of Rs.0.08 Cr in FY2022.

Acuité believes that the liquidity of OPSC is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that OPSC will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	9.60	12.83
PAT	Rs. Cr.	0.49	0.64
PAT Margin	(%)	5.13	5.01
Total Debt/Tangible Net Worth	Times	0.65	0.83
PBDIT/Interest	Times	3.32	2.87

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

Not applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Mar 2022	Cash Credit	Long Term	1.50	ACUITE BB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Reaffirmed)
04 Jan 2021	Bank Guarantee	Short Term	7.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4 Reaffirmed
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A4 Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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