April 03, 2023

Om Construction Companies India Private Limited (formerly known as Om Construction Company): Long-term rating downgraded and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	7.00	7.00	[ICRA]B+(Stable); Downgraded from [ICRA]BB- (Stable)
Long-term – Fund-based – Term Loan	0.39	1.00	[ICRA]B+(Stable); Downgraded from [ICRA]BB- (Stable)
Short-term – Non-fund Based	42.00	42.00	[ICRA]A4; Reaffirmed
Long-term/Short-term – Unallocated	0.61	0.00	-
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's rating action factors in the stretched liquidity position and deterioration in the debt coverage metrics of Om Construction Companies India Private Limited (OCCIPL) in the backdrop of weak profitability and increase in short-term working capital facilities. Notwithstanding the improvement in its scale of operations in the current fiscal to around ~Rs. 90 crore, the overall scale of operations is likely to remain modest in FY2023. Further, its operating profit margins have been under pressure deteriorating to 4.4% in FY2022 (against 6.97% in FY2021) due to stiff competition and volatility in raw material prices. OCCIPL had an outstanding order book (OB) of Rs. 166.66 crore as of March 2023, which provides medium-term revenue visibility, albeit with high execution risk. The rating revision notes the deterioration in the company's liquidity profile as reflected from high utilisation of working capital limits in the current fiscal. The rating is constrained by the high client concentration risk, as OCCIPL executes projects mainly for the state government departments of Madhya Pradesh. The rating considers the absence of a price escalation clause in some of the contracts and the intense competition from other unorganised players, which puts pressure on its profitability.

However, the ratings continue to positively factor in its track record in the civil construction industry and healthy clientele comprising various state government departments. OCCIPL has an established track record of executing work for government clients, which includes Madhya Pradesh Urban Development Company Limited (MPUDCL), Madhya Pradesh Rural Road Development (MPRRD), MP Housing & Infrastructure Board (MPHID), Municipal Corporation, Public health Engineering Department (PHED), Public Works Department (PWD), Rural Engineering Services (RES) amongst others.

The Stable outlook on the ratings reflects ICRA's opinion that OCCIPL will benefit from the extensive experience of its promoters in the construction segment, and orders in hand providing medium-term revenue visibility.

Key rating drivers and their description

Credit strengths

Experienced partners in construction business; established track record of executing work for various government department – The firm's founding promoter, Mr. Durga Prasad Dixit, has been involved in the construction business for around two decades. The promoters' long experience in the construction business aided OCCIPL in securing and executing orders from various state government departments. The counterparties for the tender-based projects executed by OCCIPL are reputed state government organisations, with the key client being MPUDCL, followed by PHED and PWD.

The company reported an order book of Rs. 166.65 crore as of March 2023. Consequently, the OB/OI ratio stood at ~3.24 times of the operating income (OI) of FY2022, which provides adequate medium-term revenue visibility. However, timely execution of orders remains important for an improvement in its overall scale of operations and profitability.

Credit challenges

Small scale of operations; high project and client concentration risks – OCCIPL's scale of operations is small, as reflected by its OI of Rs. 51.4 crore in FY2022 and net worth of Rs. 2.3 crore as on March 31, 2022. The intense competition in procuring tender-based contracts limits its pricing flexibility and exerts pressure on the profit margins. It posted an operating profit margin of 4.4% in FY2022 against 6.9% in FY2021.

At present, OCCIPL has orders from three clients and the top three orders constitute 72% of the outstanding order book as of March 2023. MPUDCL is the key client with over 86% as per the outstanding order book as of March, 2023. The risk of non-performance in any project or weakening of the business relationship with these clients can have a negative bearing on securing future orders, given the client concentration.

High working capital requirements and stretched liquidity position – The firm's liquidity position has been weak as reflected in the high utilisation of its fund-based bank limits in the recent past with average utilisation of 93% and maximum utilisation of over 100%. ICRA notes that the working capital requirement is likely to increase with expected growth in scale of operations, which may pressurise its liquidity.

Liquidity position: Stretched

The firm's liquidity position is stretched as reflected by high utilisation of its fund-based bank limits in the recent past with average utilisation of 93% and maximum utilisation of over 100%. The company's ability to judiciously manage its working capital cycle and enhance its working capital lines remain important to have any meaningful improvement in the liquidity position, given the expected increase in scale of operations and consequent rise in working capital requirement.

Rating sensitivities

Positive factors – The ratings could be upgraded if OCCIPL demonstrates an increase in revenues and profitability, leading to improvement in its net worth and liquidity position.

Negative factors – The ratings could be downgraded in case a significant decline in revenues and pressure on operating profit margins constrain its liquidity position. Any significant debt-funded capital expenditure or increase in working capital intensity deteriorating its liquidity or credit metrics could lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of OCCIPL.

About the company

Om Construction Companies India Private Limited (OCCIPL, formerly Om Construction Company), based in Tikramgarh (Madhya Pradesh), was formed in 2002 by Mr. Durga Prasad Dixit and Ms. Asha Dixit as a partnership firm with sharing profit and losses in the ratio of 90:10. The firm was recently converted into a private limited company. It is mainly involved in the business of civil construction for state government departments such as PWD, RES, PHED, Madhya Pradesh Urban Development (MPUD), MPRRD, MPHID, Municipal Corporation, MP Police Housing Cooperation (MPHC), Water Resource Departments and other divisions of the state government.

Key financial indicators

OCCIPL Standalone	FY2021	FY2022
Operating income	28.7	51.4
PAT	0.8	1.5
OPBDIT/OI	6.9%	4.4%
PAT/OI	2.8%	2.9%
Total outside liabilities/Tangible net worth (times)	2.8	13.1
Total debt/OPBDIT (times)	1.9	4.2
Interest coverage (times)	1.3	2.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 03, 2023	-	Mar 17, 2022	-
1	Fund-based Bank Facilities	Long-term	7.0	-	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	-
2	Non-fund Based Bank Facilities	Short-term	42.0	-	[ICRA]A4	-	[ICRA]A4	-
3	Term Loan	Long-term	1.0	0.3	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	-
4	Unallocated	Long term / Short term	-	-	-	-	[ICRA]BB- (Stable)/ [ICRA]A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Cash Credit	Simple
Short-term – Non-fund Based	Very Simple
Long-term – Fund-based Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based Cash Credit	NA	NA	-	7.00	[ICRA]B+ (Stable)
NA	Short-term - Non-fund Based	NA	NA	-	42.00	[ICRA]A4
NA	Long-term – Fund-based Term Loan	FY2022	7.50%	FY2025	1.00	[ICRA]B+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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