Oriental Structural Engineers Private Limited

July 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE A; Negative / CARE A1 (Single A; Outlook: Negative / A One) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE A; Negative (Single A; Outlook: Negative) and Withdrawn
Total Bank Facilities	**0.00 (Rs. Only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A; Negative/CARE A1' [Single A; Outlook: Negative/ A One] assigned to the bank facilities of Oriental Structural Engineers Private Limited (OSE) with immediate effect. The above action has been taken at the request of OSE and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management and long track record of operations:

OSE has a long track record of almost five decades in the construction industry with primary expertise and experience in roads and highways segment. The company has executed several major infrastructure projects in the past and has a track record of completing majority of its projects in a timely manner including its road BOT projects under SPVs.

Regular inflows from InvIT leading to improved liquidity:

OSE constituted OIT as an infrastructure investment trust (InvIT) in June 2019 by transferring five operational SPVs (one annuity road project and four toll road projects) to the trust for a total enterprise value of Rs.11,638 crore. From the InvIT proceeds, OSE received a net inflow of Rs. 871.75 crore which also includes selling its share in the SPVs and unwinding of unsecured group loans. The cash inflow from the InvIT led to an improvement in the liquidity position of the company. Further, the release of capital led to improvement in the net worth of the company which increased to Rs.2541.52 crore as on March 31, 2020 leading to comfortable gearing of 0.39x as against overall gearing of 0.71x as on March 31, 2019

OSE and its wholly owned subsidiary Oriental Tollways Pvt Ltd (OTPL) holds 60.45% stake in OIT. The group has been receiving regular inflows in the form of interest and distributions from the trust. OSE and OTPL together received Rs. 141.46 crore in FY20 and further Rs.247.06 crore for the nine months ending December 31, 2020 as distributions from InvIT.

Going forward, OSE plans to monetize its completed BOT-Toll and BOT-HAM projects to InvIT. The monetization of assets and consequent release of part capital going forward is expected to provide significant financial flexibility to the company.

Significant improvement in gearing, while revenues have declined:

During FY20, the operating income of the company at standalone level declined by about 17%, on year-on-year basis, to Rs.2,283.39 crore as against operating income of Rs.2,764.05 crore during FY19. This is primarily on account of external reasons such as land acquisition issues and delays in getting approvals in its three HAM projects namely Binjhabahal- Telebani, Rajiv Chowk Sohna Road and Kallagam Meensurutti and prolonged monsoon during FY20. Despite the decline in the revenues, the operating margin of the company improved to PBILDT margin of 16.58% in FY20 as against 14.65% in FY19.further, the company has achieved revenue of Rs.2,017 crore during FY21 (Prov.).

The overall gearing ratio (standalone) improved to 0.39x as on March 31, 2020 (0.71x as on March 31, 2019) on account of increase in net worth owing to sale of assets to InvIT. Additionally, the company is expected to receive regular distribution income from the surpluses of the trust, which is expected to support the coverage indicators going forward as well.

During FY21 (Prov.), OSE was able to achieve total revenue of about Rs.2000 crore. Moderation in revenue is primarily on account of lockdown announced owing to COVID-19 pandemic from March 25, 2020 onwards, which resulted in halt of construction activities for major part of April 2020. Though the construction activities resumed post lockdown, the pace of execution was impacted owing to supply chain disruptions and mass migration of labours. The ability of the company to complete the on-going projects within the revised scheduled timelines upon EOT receipts would remain a rating sensitivity.

Key Rating Weaknesses

Depleted order book position, in the absence of fresh orders for a prolonged period:

OSE has an unexecuted EPC and coal mining order book position of Rs.3,196.25 crore as on April 01, 2021 which translates into 1.58x of FY21 total income (provisional). The company has recently won a new order and have been awarded LoA on March 25, 2021, for a project to be constructed under Hybrid Annuity Mode (HAM), though the appointed date for the same is awaited. Order book position of the company has declined as compared to Rs.4,205 crore of unexecuted orders as on September 30, 2019 thereby impacting the revenue visibility, from the company's EPC business, in the medium term. The disallowance on OSE for bidding in future NHAI tenders further impacted the already moderate order book position of the company. While NHAI has now withdrawn the disallowance on OSE from participating in any future NHAI bids and the company has currently bids in pipeline for new projects aggregating to about Rs.10,000 crore, the ability of the company to procure new orders with reputed counter parties, revenue visibility of around 2.5x-3x times and sustaining its operating margins from its EPC business would remain a key rating sensitivity

Investment requirement in HAM projects and support towards BOT projects:

The company has met part equity commitment for Rajiv Chowk Sohna, Binjhabahal Talebani and Kallagam projects. Furthermore, the remaining equity requirement amounting to about Rs.99.18 crore for the HAM projects is expected to be met from internal accruals and from the distribution income received from OIT. Apart from this, the company also has three operational toll projects where support required from OSE is likely to be limited. However, going forward, equity requirements in the SPVs will increase if the company undertakes more HAM or BOT projects.

Susceptibility of margins to the volatility associated with input costs:

The fixed-time, fixed-price nature of the EPC contracts for the in-house projects exposes the company's margins to the volatility associated with input costs.

Inherent challenges associated with the construction sector along with challenging fund-raising environment for the sector:

The construction sector is facing hurdles in fund raising with delayed enhancement of working capital limits, delay in financial closure and equity raising plans on account of challenging business environment for the sector and weakened financial health of the banking sector. The inherent risk involved in the construction industry including aggressive bidding, traffic risk, interest rate risk, volatile commodity prices and delay in project progress due to resistance towards land acquisition and regulatory clearances have collectively affected the credit profile of developers in the past.

Liquidity Analysis: Adequate

OSE's liquidity position continues to be adequate with unutilized CC limits of Rs.240 crore as on June 28, 2021. The average utilization of fund based working capital limits were comfortable at 40.25% for 12 months ending April 30, 2021. The company has debt obligations of around Rs.65 crore each during the FY22 and FY23. The actual gross cash accruals of Rs.242 crore and Rs.93 crore in FY20 and H1FY21 respectively.

The company is expected to receive regular distribution income from OIT annually, which would also support its liquidity position. OSE had availed moratorium for its term loan instalments with effect from March 1, 2020, for a period of three (3) months towards deferment of their debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020, which has since been repaid by June 2020. Further, the principal repayment obligations for FY21 have been fully paid by the company

Analytical approach: Standalone factoring in support/ investments to its subsidiary/ associate companies. Further, dividend distribution from InvIT to OTPL, which is a 100% subsidiary, has also been considered

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning Outlook to Credit Rating
CARE's default recognition policy
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial sector entities
CARE's Policy on Curing Period
Rating Methodology-Construction Sector
Rating Methodology-Infrastructure Sector Ratings
Short term Instruments

About the Company
Oriental Structural Engineers Pvt Ltd (OSE), incorporated in June 1971, is engaged in the construction of roads and highways, rigid and flexible pavements for roads, airfields, bridges and earthwork. The company is promoted by Mr K.S. Bakshi along with other promoter directors Mr P.S. Sethi and Mr A.S. Bakshi.
OSE has presence in infrastructure sector with specialization in roads and highways segment. OSE has a significant presence in road BOT and HAM projects. OSE along with its wholly owned subsidiary, Oriental Tollways Private Limited (OTPL) has a portfolio of seven road projects under various special purpose vehicles, of which all four BOT projects are operational and three HAM projects are under execution. During the FY15, OSE had also forayed into the coal mining segment.
In June 2019, OSE had sold five operational road assets to OIT. OSE and its wholly owned subsidiary, OTPL are sponsors of OIT and hold 60.45% stake in the InvIT, with the balance held by the investors.

Brief Financials (OSE):

Brief Financials (In Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,764.05	2,283.39
PBILDT	404.81	378.53
PAT	120.96	219.15
Overall gearing (times)^	0.71	0.39
Interest coverage (times)	2.73	2.84

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	Dec 2031	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Negative (18-Mar-21) 2)CARE A (CWN) (15-Sep-20)	1)CARE A; Stable (03-Feb-20) 2)CARE A- (CWD) (13-Dec-19)	1)CARE A-; Stable (05-Oct-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)CARE A; Negative / CARE A1 (18-Mar-21) 2)CARE A / CARE A1 (CWN) (15-Sep-20)	1)CARE A; Stable / CARE A1 (03-Feb-20) 2)CARE A- / CARE A2+ (CWD) (13-Dec-19) 3)CARE A-; Stable / CARE A2+ (05-Apr-19)	1)CARE A-; Stable / CARE A2+ (05-Oct-18)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A; Negative (18-Mar-21) 2)CARE A (CWN) (15-Sep-20)	1)CARE A; Stable (03-Feb-20) 2)CARE A- (CWD) (13-Dec-19) 3)CARE A-; Stable (05-Apr-19)	1)CARE A-; Stable (05-Oct-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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