Oriental Structural Engineers Private Limited

March 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	730.77 (reduced from 894.44)	**CARE A; Negative (Single A; Outlook: Negative)**	**Reaffirmed and removed from credit watch with negative implications; Negative outlook assigned**
Long-term/Short-term Bank Facilities – LC/BG	1535.00	**CARE A; Negative / CARE A1 (Single A; Outlook: Negative/ A One)**	
Total	**2,265.77 (Rupees Two thousand two hundred and sixty five crore and seventy seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had placed the ratings of Oriental Structural Engineers Private Limited (OSE) on 'Credit watch with negative implications' in September 2020 pursuant to a notice issued by National Highways Authority of India (NHAI) disallowing OSE from participating in any future NHAI bids (directly or in association/ JV) involving major structural following the collapse of a portion of an under-construction flyover – a part of the Rajiv Chowk Sohna Road project, for which OSE is the sponsor and EPC contractor.

The removal of 'Credit watch with negative implications' is consequent to NHAI withdrawing its disallowance of OSE's participation in any NHAI bids vide NHAI letter dated January 25, 2021. The withdrawal of disallowance is subject to the conditions that rectification work shall be carried out at the company's cost within the stipulated construction period without any Extension of Time (EoT) and/ or contractual implications, and against the payment of a penalty of Rs.3 crore.

CARE understands that the rectification work on the project stretch had already commenced subsequent to receipt of letter from NHAI in November 2020 for resumption of works on project stretch, including the elevated structure works. Besides, the penalty imposed has also been paid by the company.

The reaffirmation of the ratings assigned to the bank facilities of OSE factors in the long and established track record in the construction industry with experienced promoters and management team, moderate financial profile with comfortable capital structure and comfortable liquidity position of the company, on account of a regular stream of interest and dividend distribution from Oriental Infra Trust (OIT- InvIT established by OSE group in June 2019) in which OSE group holds 60.45% units.

The rating strengths, however, are tempered by the company's depleted order book position, declining operational and financial performance of the company during FY20 and H1FY21, inherent risks pertaining to the EPC business, fixed-time fixed-price nature of contracts for the group's HAM projects, and susceptibility of margins to the volatility associated with input costs.

Outlook: Negative

The outlook has been revised to "Negative" on account of significant decline in revenue visibility from the company's EPC business owing to moderation in the order book position of the company with no additional orders received during FY20 and 11MFY21. The disallowance on OSE for bidding for future tenders further impacted the already moderate order book position, which currently stands at 0.88x of FY20 revenues.

CARE, however, notes the withdrawal of disallowance by NHAI from participating in any future NHAI bids. The outlook may be revised to 'Stable' if the company is able to significantly build up its order book while sustaining its operating margins, which would improve the revenue visibility in medium to long term from its EPC business.

Rating sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Continued monetization of its assets by transfer of its projects to OIT thereby providing financial flexibility to the company
- Further improvement in gearing levels and liquidity position on an on-going basis
- Build-up of order book position with revenue visibility of 3.0-3.5x with quality counterparties with sustained profitability margins

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Continued low order book position leading to decline in revenue in the medium term

- Increased financial support to SPVs impacting cash flow cushion and liquidity of OSE
- Delays in the progress of ongoing work orders leading to under achievement of revenues
- Elongation in operating cycle beyond 100 days
- Any significant and sustained decline in distributable cash flows from the underlying projects in OIT

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.

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 H1FY21, OSE was able to achieve total revenue of about Rs.799 crore as against Rs.1112 crore achieved in H1FY20. Moderation in revenue during H1FY21 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 labors. 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 a low unexecuted EPC and coal mining order book position of Rs.2,007 crore (Rs.1,856 crore EPC and Rs.150 crore coal mining) as on December 31, 2020, which translates into 0.88x of FY20 total income. 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.

OSE has not received any new orders during FY20 and 11MFY21 leading to a decline in the order book. 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 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.130 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 a free cash balance of Rs.85.30 crore as on January 22, 2021. The average utilization of fund based working capital limits were comfortable at 38.56% for 12 months ending November 30, 2020. 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
CARE's criteria on rating outlook and credit watch
CARE's Policy on Default Recognition
Rating methodology-Construction Sector
Rating Methodology-Consolidation
Liquidity Analysis of Non-Financial Sector entities
Financial ratios-Non Financial Sector
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.
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials	FY19 (A)	FY20 (A)
Total operating income	2,764.05	2283.39
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	-	-	-	250.00	CARE A; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	1535.00	CARE A; Negative / CARE A1
Fund-based - LT-Term Loan	-	-	Dec 2031	480.77	CARE A; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE A; Negative	1)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)	1)CARE A-; Stable (26-Dec-17) 2)CARE BBB+; Stable (05-May-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1535.00	CARE A; Negative / CARE A1	1)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)	1)CARE A-; Stable / CARE A2+ (26-Dec-17) 2)CARE BBB+; Stable / CARE A2 (05-May-17)
3.	Fund-based - LT-Term Loan	LT	480.77	CARE A; Negative	1)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)	1)CARE A-; Stable (26-Dec-17) 2)CARE BBB+; Stable (05-May-17)

						3)CARE A-; Stable (05-Apr-19)		
4.	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (26-Dec-17) 2)CARE A2 (05-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
A. Financial covenants	• DSCR>=1.25x for the tenor of facility • Total Debt/EBITDA <=3.5x • Long term external liability (excluding equipment loan) to be capped at Rs. 1000 cr • Long term external liability (i.e. long term debt+ equipment Loan+ guarantees for claims/arbitration to NHAI) to be capped at Rs. 1500 cr • Total Debt/ TNW to be <= 1.0x
B. Non Financial Covenants	• Banks facilities to be utilized for the purpose as per RBI's guidelines • Promoters to directly/indirectly have at least 51% unencumbered shares of both economic and voting interest in the share capital of the borrower and also have the management control of the borrower

Annexure-4: 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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