

## Oil and Gas Plant Engineers (India) Private Limited

March 22, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	0.50	<b>CARE BB; Stable</b> ( Double B; Outlook: Stable)	Assigned
Long Term/Short Term Bank Facilities	9.00	<b>CARE BB; Stable/CARE A4</b> ( Double B; Outlook: Stable/A Four)	Assigned
<b>Total facilities</b>	<b>9.50</b> (Rs. Nine crores and Fifty lakh only)		

*Details of instruments/facilities in Annexure-1*

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Oil and Gas Plant Engineers (India) Private Limited are constrained by its small and fluctuating scale of operations with low net worth base, elongated operating cycle and foreign exchange fluctuation risk. The ratings are further constrained on account of fortunes linked to the oil and gas storage industry which is cyclical in nature risk associated with tender-based orders.

The ratings, however, draw comfort from experienced promoters with long track of operations, association with the reputed customer, comfortable capital structure and coverage indicators and moderate order book.

Going forward, ability of the company to increase its scale of operations, improve profitability margins and effective management of working capital will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weakness

#### **Small and fluctuating scale of operations with low Net worth Rate**

OGPE's scale of operations remained modest marked by total operating income of Rs. 26.50 crore and gross cash accruals of Rs. 0.87 crores during FY18 (refers to the period April 01 to March 31). Further, the company's net worth base was relatively moderate at Rs. 9.13crore as on March 31, 2018. The modest scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Further, the company has achieved total operating income Rs.29.49crores in 11MFY19 (Period refer to April – February; based on provisional results).

#### **Elongated Operating Cycle**

The average operating cycle of the company elongated from 71 days in FY17 to 97 days in FY18. The average collection period increased from 107 days for FY17 to 117 days for FY18 to due to payment policies followed by OGPE's customer specially government entities. The company is required to maintain adequate inventory of raw material for smooth running of its production processes. Furthermore, being a manufacturer the company has to maintain minimum inventory of finished goods in order to meet the demand to meet the sudden demand of its customers, which leads to average inventory holding for more than 2 months, the inventory has elongated on account of manufacturing of goods in last quarter of FY18. Company procures the raw material from overseas and domestic market and receives an average payable period of around 3 month from its suppliers. The utilization levels of fund based working capital limit for last twelve months ended February 28, 2019 stood around 80 per cent.

The liquidity indicators stood weak as marked by low current and quick ratio of 1.86x and 1.21x respectively as on March 31, 2018 as against 1.90x and 1.25x respectively as on March 31, 2017. The cash and bank balances stood at Rs.0.24 crore as on March 31, 2018.

#### **Fortunes linked to the oil and gas storage industry which is cyclical in nature risk associated with tender-based orders**

Prospects of oil and gas storage industry are strongly co-related to economic cycles. Demand for oil and gas storage products is sensitive to trends of particular industries such as automotive, construction, infrastructure, etc., which are the key consumers of oil and gas storage products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc., in the economies in which they sell their products. When downturns occur in these economies or sectors, these products may witness decline in demand, which may lead to decrease in metal putting pressure on the firm.

The company also undertakes government projects mainly oil and gas like IOCL, BPCL, HPCL, etc., which are awarded through the tender-based system. The company is exposed to the risk associated with the tender-based business, which is characterized by intense competition.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Foreign exchange fluctuation risk**

The business operations of OGPE involve imports resulting in cash outflow in foreign currency. OGPE imports its raw material from USA, Japan, China and European countries which is 20% of total raw materials purchased. The company do not hedge its foreign currency risk, and being initial cash outlay in foreign currency and realization in domestic currency, company's profitability margin are exposed to volatility in foreign exchange.

**Key Rating Strengths****Experienced promoters with long track record of operations**

OGPE has been engaged in setting up of LPG and other Gas storage Plants on Turnkey basis and supply of specifies equipments for Oil and Gas sector for almost two and half decade which aid in establishing a healthy relationship with both customers and suppliers. The company is promoted by Mr. Vivek Madan and Mr. Omkar Chadda. Operations of the company is currently being managed by Mr. Vivek Madan. He is B.Tech by qualification having experience of almost two and half decades in this industry through his association with OGPE. Further he is also assisted by qualified head of departments working for OGPE and has very extensive experience in their respective fields.

**Association with the reputed customer**

The OGPE has been into oil and gas storage business and has established relationship with numerous reputed customers in different industries. The customer base of the company comprises domestic corporates spread across various industries and also government departments like Maruti, Ashoka Leyland Honda, IOCL, BPCL and HOCL etc. The company has been getting the repetitive orders for from its clients. This long-term and close relationship with its clients is reflective of the company's demonstrated ability to provide quality products. The association with reputed customer ensures the quality of products sold by the company and results in higher revenue visibility and increased presence in the market.

**Comfortable capital structure and coverage indicators**

The capital structure of the company marked by overall gearing ratio stood comfortable as on past three balance sheet dates ending March 31, 2018 mainly on account of low reliance on external borrowings. Overall gearing stood comfortable at 0.03x for last three financial years March 31st (2016-18).

Further, coverage ratios and GCA stood comfortable from last three financial years (FY16-FY18) marked by interest coverage and total debt to GCA at 5.84x and 0.26x respectively in FY18. Though it deteriorated as against FY17 where it stood at 10.58x and 0.25x respectively on account of increase in the finance cost coupled with weak profitability margins.

**Moderate Order Book**

OGPE has an unexecuted order book of around Rs.20.30 crores as on January 31, 2019 which is equivalent to almost 76.6% of the total operating income achieved by the company in FY18. The moderate order book position shows visibility of revenue in the short to medium term for the company.

**Analytical Approach: Standalone****Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for short term instruments](#)

[CARE's methodology for manufacturing companies](#)

**About the Company**

Oil And Gas Plant Engineers (India) Private Limited was incorporated in 1993 by Mr. Omkar Chadda and MR. Vivek Madan. OGPE is an Engineering, Procurement and Construction (EPC) Company engaged in the manufacturing & Installation of Bulk Storage Installations, LPG Storage Systems, Propane Storage Systems, Natural Gas Storage Systems, LPG Bottling plants, gas leak detectors etc. OPGE is involved in manufacturing and EPC (Engineering, Procurement and Construction ) of Specialized Equipment as also setting up complete LPG , Oil and Natural Gas systems on the turnkey basis . The company has its manufacturing unit in Faridabad, Haryana. The key raw material are Dispenser Pumps, LPG Tanks, Vaporizers, Compressors, Pipes, etc. Also, it imports raw material from Japan, Turkey, Singapore & United States, etc., total import comprised of 20% of its total purchases. OGPE is also certified by ISO 9001:2000.

(Rs. In crores)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	25.89	26.50
PBILDT	1.33	1.35
PAT	0.63	0.63
Overall gearing (times)	0.03	0.03
Interest coverage (times)	10.58	5.84

A-Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-	0.50	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	6.00	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-Bank Guarantees-Proposed	-	-	-	3.00	CARE BB; Stable / CARE A4

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	0.50	CARE BB; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	6.00	CARE BB; Stable / CARE A4	-	-	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees-Proposed	LT/ST	3.00	CARE BB; Stable / CARE A4	-	-	-	-

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