Oriental EPC Private Limited

April 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	15.00	**CARE BB+; Stable ; ISSUER NOT CO-OPERATING [Double B Plus; Outlook: Stable; ISSUER NOT CO-OPERATING*]**	Issuer not cooperating; Based on best available information
Long-term/ Short-term Bank Facilities	35.00	**CARE BB+; Stable/ CARE A4+; ISSUER NOT CO-OPERATING [Double B Plus; Outlook: Stable/A Four Plus; ISSUER NOT CO-OPERATING*]**	Issuer not cooperating; Based on best available information
Total Facilities	**50.00 (Rupees Fifty Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from OEPCPL to monitor the ratings vide e-mail communications/ letters dated December 31, 2018, January 21, 2019, February 14, 2019, February 19, 2019, March 12, 2019 and March 18, 2019 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, OEPCPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The ratings on OEPCPL's bank facilities will now be denoted as '**CARE BB+; Stable/ CARE A4+; ISSUER NOT COOPERATING*'.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

For arriving at the ratings of OEPCPL, CARE has taken a combined view of OEPL and its wholly owned subsidiary Oriental EPC Private Limited (OEPCPL; formerly known as Oriental Nicco Projects Private Limited) due to their common management, parent – subsidiary relationship and their operational linkages, referred to as Oriental Group (OG).

The ratings of OG continues to remain constrained on account of its weak overall gearing, working capital intensive nature of operations, susceptibility of its profitability to volatility in raw material prices and presence in a competitive capital goods industry. The ratings are also constrained on account of OG's modest scale of operations and its weak capital structure.

The ratings, however, continue to derive strength from the experience of its promoters in the capital goods industry, track record of OEPCPL in EPC industry, its established clientele, healthy order book providing good revenue visibility and gradual improvement in its operating profitability.

OG's ability to further increase its scale of operations and improve its profitability and solvency along with maintaining control over its working capital cycle are the key rating sensitivities.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

**Issuer did not cooperate; Based on best available information*

Detailed description of the key rating drivers
At the time of last rating on February 14, 2018, the following were the rating strengths and weaknesses (updated for latest available information):

Key Rating Weaknesses
Modest scale of operations with weak overall gearing: OG's TOI reduced by 11% y-o-y in FY18, primarily on account of reduced order execution in both the entities. Furthermore, OG continued to have a weak capital structure marked by overall gearing of 3.18x as on March 31, 2018, due to its low networth base and sizeable working capital bank borrowings.

Working capital intensive nature of operations: The operations of OG are working capital intensive in nature, with investment required in both receivables and inventory. A milestone based billing and need to hold inventory for supplies to be made under its EPC contracts translates into a considerable inventory holding period, particularly for OEPCPL. Also, the retention money held by debtors leads to increase in amount of receivables. OG's working capital requirements are being funded through a mix of working capital borrowings and internal accruals. During FY18, OG's operating cycle remained elongated at 135 days. Further, the utilization of the fund based limits also remained high, underlining its moderate liquidity.

Profitability vulnerable to volatility in raw material prices: A sizeable part of OG's operations includes fabrication using various metals and EPC of projects consisting of these items. A considerable order execution period of 150-180 days exposes OG to volatility in the prices of metals, which are its primary raw material. However, OEPL builds in variation in raw material prices to a certain extent while taking orders from its customers to mitigate the price fluctuation risk. Also, OG books a substantial part of its raw material requirement immediately based on receipt of order to reduce the effect of volatility on its profitability.

Key Rating Strengths
Experienced promoters: The promoters of OG, Mr. Vishwesh Patel and Mr. Pranjal Patel, have over two decades of experience in the capital goods industry. Mr. Jigar Patel, another key director, is also technically qualified and experienced in the capital goods industry. The management is supported by a team of qualified personnel to look after various aspects of business including operations, marketing and finance. Further, the promoters have demonstrated continued support towards OG's operations with infusion of unsecured loans, which stood at Rs.5.32 crore as on March 31, 2018.

Reputed clientele: Over its existence of over two decades, OG has established reputed clientele across various industry segments including in pharmaceuticals, chemicals, fertilizers, oil & gas, power and other process driven industries for its manufacturing operations as well as in steel, energy, oil & gas and other related industries in its EPC operations through OEPCPL. OG has developed long standing relationship with its clients which translate into high number of repeat orders. OEPL has in-house designing capabilities to cater to the requirement of its clients and also manufactures equipment as per designs provided by its clients.

Gradual improvement in operating profitability: OG's profitability remained moderate and reported marginal improvement of 188 bps from the previous year on account of better profitability in contracts under execution resulting in PBILDT margin of 10.90% during FY18. However, interest cost remained high due to continued reliance on external debt to fund working capital requirements. This resulted in a thin PAT margin of 1.65% in FY18 which however improved by 79 bps y-o-y.

Analytical approach: Combined
A combined view of OEPL and its wholly owned subsidiary OEPCPL has been considered for analysis due to their common management, parent – subsidiary relationship and their operational linkages.

Applicable Criteria
[Policy in respect of Non-cooperation by issuer]
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology - Manufacturing Companies]
[Financial ratios - Non- Financial Sector]

About the Group
OEPL was formed in February 2013 by merging two group entities namely Sarabhai Machinery Private Limited (SMPL) and Oriental Manufacturers Private Limited (OMPL). SMPL has been in operations since 1979. Presently, OEPL operates two divisions, a manufacturing division with facilities located at Vadodara and a capital goods trading division. OEPL's manufacturing division is engaged in production of process equipment like centrifuges, heat exchangers, pressure vessels, reactors and vehicle washing machines. OEPL's trading division is involved in import and distribution of various machines made by reputed international manufacturers used in industries such as textiles, chemicals, rubber and packaging. It also provides servicing and annual maintenance contracts to entities to which it has sold the machines.
OEPCPL is 100% subsidiary of OEPL and is engaged in the business of Engineering, Procurement and Construction (EPC) of projects on a turnkey basis for steel, power, oil & gas, petrochemical and chemical industry. OEPCPL was incorporated with an objective to acquire the project division of Nicco Corporation Limited (NCL). The project division of NCL was established in 1986. The acquisition was completed in FY15 and under the arrangement all technical know-how, human capital and on-going projects were transferred to OEPCPL.

OEPL and OEPCPL have been together referred to as Oriental Group (OG).

Brief Financials of OG (Consolidated financials of OEPL) are tabulated below:

(Rs. Crore)

Brief Financials	FY17 (A)	FY18 (A)
Total operating income	131.12	116.74
PBILDT	11.83	12.74
PAT	1.12	1.93
Overall gearing (times)	3.93	3.18
Interest coverage (times)	1.45	1.51

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	15.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - LT/ ST-BG/LC	-	-	-	35.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

** Issuer did not co-operate, based on best available information*

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	15.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable (16-Feb-18)	1)CARE BB; ISSUER NOT COOPERATING* (28-Mar-17)	1)CARE BB (18-Jan-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	35.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable / CARE A4+ (16-Feb-18)	1)CARE BB / CARE A4+; ISSUER NOT COOPERATING* (28-Mar-17)	1)CARE BB / CARE A4+ (18-Jan-16)

** Issuer did not co-operate, based on best available information*

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