Oriental Structural Engineers Private Limited

April 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities – Term Loan	534.06 (reduced from 535)	**CARE A-; Stable (A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities – LC/BG	1,250 (enhanced from 990)	**CARE A-; Stable/CARE A2+ (A Minus; Outlook: Stable/A Two Plus)**	**Reaffirmed**
Total Facilities	**1,784.06 (Rupees One Thousand Seven Hundred Eighty Four crore and Six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the facilities of Oriental Structural Engineers Private Limited (OSE) continue to factor in improvement in financial performance during FY18 (refers to the period April 01 to March 31), strong order book position, long and established track record of OSE in the construction industry and experienced promoters and management team.

The rating strengths, however, are tempered by moderate debt coverage indicators, fixed-time fixed-price nature of contracts for in-house projects and susceptibility of margins to the volatility associated with the input costs.

Going forward, the ability of the company to execute the orders in a timely manner while sustaining profitability, growth in order book position, extent of support towards the group's SPVs, effective management of working capital requirements and improvement in capital structure shall be key rating sensitivities.

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 four decades in the construction industry with main expertise and experience in roads and highways segment.

Track record of timely execution of projects

OSE has executed several major infrastructure projects in the past. OSE has track record of completing majority of its projects in timely manner including majority of its road BOT projects under SPVs.

Improvement in financial performance during FY18

During FY18, OSE's (standalone) total income increased by 46.80% Y-o-Y to Rs.2,436.69 crore, PAT increased by 54.03% Y-o-Y to Rs.221.97 crore and Gross Cash Accruals (GCA) increased by 46.63% to Rs.293.43 crore. PBILDT margin of about 19% remained at comfortable levels. The work picked up pace in Biaora-Dewas and Agra-Etawah projects in FY18 (income of Rs.1,073.78 crore in FY18 as against Rs.416.02 crore in FY17 from these two projects). Further, start of work on Amravati-Chikli and Binjhabahal-Telebani projects during FY18 contributed to the growth. The income from coal extraction was marginally lower at Rs.179.45 crore in FY18 (as against Rs.192.54 crore in FY17).

During 9MFY19 (Provisional), the company has registered total operating income of Rs.1,974.49 crore and PAT of Rs.117.40 crore as against total operating income of Rs.1,614.23 crore and PAT of Rs.156.19 crore in 9MFY18 respectively.

Strong order book position

OSE has a strong unexecuted order book position of Rs.7,481 crore (Rs.6,940 crore EPC and Rs.541 crore coal mining) as on December 31, 2018, which translates into 3.07x FY18 operating income. The company has secured 3 new HAM projects in the last one year having value of Rs.2,477 crore, besides new EPC order for development of Purvanchal Expressway from UP Expressways Industrial Development Authority (UPEIDA) for value of Rs.1,622 crore.

Industry Outlook

While the construction industry would continue to witness cyclical trends due to inherent nature of the industry, the

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

long-term outlook for construction sector in stable. The construction industry contributes around 8% to India's Gross domestic product (GDP). The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into business potential for the construction industry in the long-run. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities. Also, the sector is expected to benefit from the increased target award activity owing to Bharatamala project.

Key Rating Weaknesses

Moderate debt coverage indicators
The overall gearing ratio on standalone basis remained moderate at 0.90x as on March 31, 2018 (0.88x as on March 31, 2017), though in FY19, the company has refinanced part of its term loans with longer maturity loans and repaid short term loan of Rs.210 crore from the amount received from its SPV, Oriental Nagpur Bypass Construction Private Limited (ONBCPL). ONBCPL has received claims of about Rs.260 crore which were released by NHAI to ONBCPL against submission of Bank Guarantee (BG). The said claims were used by ONBCPL to pay OSE for pending EPC works.
The working capital limit utilization remained moderate at about 81% for the 12 month period ending February 2019. Also, the company's payables stood high at Rs.470.80 crore as on March 31, 2018 (Rs.439.54 crore as on March 31, 2017), though payable days improved from 124 days in FY17 to 83 days in FY18. The interest coverage ratio improved from 3.46x in FY17 to 4.35x in FY18.

Investment requirement and support towards BOT projects
The company has met the equity commitment for the under-construction Binjhabahal-Telebani project through the proceeds of NCD issue (Series C) of Rs.139.36 crore in ONBHL in FY18. The company further plans to meet the equity requirement of the recently secured 3 HAM projects, through issuance of additional NCDs (Series D) in ONBHL or through proceeds of the proposed InvIT issue in FY20. In the past, the company has had to support some of its SPVs due to demonetization and lower toll collections, however, the SPVs are not expected to require any major support from OSE going forward and the projects are mostly self-reliant.

Susceptibility of margins to the volatility associated with the 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 the input costs. The in-house EPC projects comprise about 50% of the unexecuted order book as of December 31, 2018.

Liquidity Analysis: The company's average utilization of fund based limits for the 12 months period ended February 2019 stood at about 81%. The company has cash and bank balance of Rs.45.28 crore as on February 28, 2019.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
CARE's methodology for Infrastructure Sector Ratings
Financial Ratios – Non-Financial Sector

About the Company
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. Dabur group holds a minority stake in the company.
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 13 road projects under various Special Purpose Vehicles (1 BOT Annuity, 8 BOT Toll and 4 HAM), of which 8 BOT projects are operational (7 toll and 1 annuity), while 1 BOT Toll and 1 HAM projects are under execution. Further, OSE has recently secured 3 new HAM projects (2 in Tamil Nadu and 1 in Haryana). During FY15, OSE had also forayed into the coal mining segment.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,659.86	2,436.69
PBILDT	381.81	465.37
PAT	144.11	221.97
Overall gearing (times)	0.88	0.90
Interest coverage (times)	3.46	4.35

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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
Non-fund-based - LT/ ST-BG/LC	-	-	-	1250.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	Sep-2024	534.06	CARE A-; Stable

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	250.00	CARE A-; Stable	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (26-Dec-17) 2)CARE BBB+; Stable (05-May-17)	1)CARE A- (27-Apr-16)	1)CARE A (10-Apr-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1250.00	CARE A-; Stable / CARE A2+	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)	1)CARE A- / CARE A2+ (27-Apr-16)	1)CARE A / CARE A1 (10-Apr-15)
3.	Fund-based - LT-Term Loan	LT	534.06	CARE A-; Stable	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (26-Dec-17) 2)CARE BBB+; Stable (05-May-17)	1)CARE A- (27-Apr-16)	1)CARE A (10-Apr-15)
4.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (26-Dec-17) 2)CARE A2 (05-May-17)	1)CARE A2+ (27-Apr-16)	1)CARE A1 (10-Apr-15)

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