Oriental Structural Engineers Private Limited

May 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	325	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE A- (A Minus)
Short-term Bank Facilities	135 (reduced from 210)	CARE A2 [A Two]	Revised from CARE A2+ (A Two Plus)
Long-term/Short-term Bank Facilities	700 (reduced from 755)	CARE BBB+; Stable/CARE A2 [Triple B Plus; Outlook: Stable/A Two]	Revised from CARE A-/CARE A2+ (A Minus/A Two Plus)
Total	**1,160 (Rupees One Thousand One Hundred Sixty Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Oriental Structural Engineers Pvt. Ltd. (OSE) factors in decline in operating income and net profit during FY16 (refers to the period April 01 to March 31). Though the same have improved in FY17 (Provisional), the near term debt coverage indicators remain relatively low. The rating also factors in moderated liquidity position and subdued performance of some of its Build-Operate-Transfer (BOT) projects. The ratings also continue to be constrained by susceptibility of the margins to volatility associated with input costs.

The ratings, however, derive comfort from long and established track record of OSE in the construction industry, experienced promoters and management team, improvement in order book position and moderately comfortable financial risk profile.

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, timely raising of funds as envisaged and improvement in capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in order book position

OSE has an unexecuted order book position of Rs.7165 crore (Rs.6295 crore EPC and Rs.870 crore coal mining) as on December 31, 2016, which translates into 6.1x FY16 sales. The order book position has shown improvement as compared to the order book position of Rs.3065 crore as on December 31, 2015.

Experienced promoters and management, 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.

Key Rating Weaknesses

Decline in operating income in FY16 and increased debt levels

OSE's operating income at standalone level declined by 23.26% Y-o-Y to Rs.1203.63 crore in FY16 on account of moderate order book position and delay in start of work on large projects. Decline in operating income and higher interest resulted in decline in PAT to Rs.94.23 crore. However, as per the company's provisional financials, it has booked sales of Rs.1,620 crore and PAT of Rs.147 crore for FY17, which is an improvement Y-o-Y. The overall gearing ratio on standalone basis increased to 0.79x as on March 31, 2016 (0.57x as on March 31, 2015) and 0.84x as on December 31, 2016. OSE's near term repayment obligations are significant and apart from improvement in financial performance, raising of funds through alternative sources as envisaged would be crucial.

Investment requirement and support towards BOT projects

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

OSE has a portfolio of 10 BOT road projects under various SPVs, of which 8 are operational. For the under execution Biaora-Dewas Highways Pvt. Ltd., entire equity has already been invested through securitization of receivables of Oriental Nagpur Betul Highway Pvt Ltd (ONBHPL) and Oriental Pathways (Indore) Pvt. Ltd. For Bijhabahal-Telebani project, equity of about Rs.100 crore needs to be invested. Also, relatively lower toll revenue has impacted financial profiles of Oriental Pathways (Nagpur) Pvt Ltd, Oriental Nagpur Byepass Construction Pvt Ltd (ONBCPL) and Etawah-Chakeri (Kanpur) Highway Pvt Ltd (ECKHPL). Also, ONBCPL has been impacted on account of pending completion of the entire project.

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
Rating Methodology – 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. GE Capital and Dabur group hold minority stakes in the company.

OSE has a presence in varied nature of contracts in infrastructure with specialization in the roads and highways segment. During FY15, OSE has also forayed into coal mining segment. Also, OSE has a significant presence in road BOT projects. As on December 31, 2016, OSE along with its wholly-owned subsidiary, Oriental Tollways Private Ltd, has invested in ten BOT road projects under various Special Purpose Vehicles (SPVs), out of which eight projects are operational, one is under execution and financial closure of one is under progress.

During FY16 (refers to the period April 1 to March 31), OSE reported a PAT of Rs.94.23 crore on a total operating income of Rs.1,175.43 crore as against PAT of Rs.110.52 crore on a total operating income of Rs.1,533.71 crore in FY15. During 9MFY17 (unaudited), the company has reported a total operating income of Rs.1,068.94 crore with PAT of Rs.77.58 crore.

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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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	-	-	-	250.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	700.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	Jun-2018	75.00	CARE BBB+; Stable
Fund-based - ST-Term loan	-	-	Jun-2017	135.00	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE BBB+; Stable	-	1)CARE A- (27-Apr-16)	1)CARE A (10-Apr-15)	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	700.00	CARE BBB+; Stable / CARE A2	-	1)CARE A- / CARE A2+ (27-Apr-16)	1)CARE A / CARE A1 (10-Apr-15)	-
3	Fund-based - LT-Term Loan	LT	75.00	CARE BBB+; Stable	-	1)CARE A- (27-Apr-16)	1)CARE A (10-Apr-15)	-
4	Fund-based - ST-Term loan	ST	135.00	CARE A2	-	1)CARE A2+ (27-Apr-16)	1)CARE A1 (10-Apr-15)	-

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CIN - L67190MH1993PLC071691