Oriental Structural Engineers Private Limited

September 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	894.44	**CARE A; Credit watch with negative implications (Single A; Credit watch with negative implications)**	**Ratings placed on credit watch with negative implications**
Long-term/Short-term Bank Facilities – LC/BG	1535.00	**CARE A; / CARE A1 (Single A; Credit watch with negative implications)**	
Total	**2,429.44 (Rupees Two thousand four hundred and forty nine crore and forty four lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings of Oriental Structural Engineers Private Limited (OSE) on 'Credit watch with negative implications' on account of 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 works with immediate effect until it demonstrates reliable construction methodologies/ designs at its site of Rajiv Chowk Sohna Road project and adequate safety measures and demonstrate that such type of accident does not occur in other part of their works. The notice was issued 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 incident had occurred on August 22, 2020 leading to temporary suspension of work at the site. Thereafter, OSE and Rajiv Chowk Sohna Highway Private Limited (RCSHPL; SPV incorporated by OSE), as the concessionaire, along with a few other concerned agencies, had been served show-cause notices seeking explanation for the aforesaid incident, which OSE, on its part, had replied to. Subsequent to perusing the reply, NHAI served the aforesaid notice of disallowance on OSE, RCSHPL and other promoters of the project.

The notice further confirmed that an Expert Committee has been formed by NHAI for reviewing the probable causes of the incident, and ascertaining the extent of shortcomings on the part of various agencies, including OSE. CARE shall continue to monitor the developments on the case closely – awaiting the findings of the Expert Committee, while simultaneously assessing the implication of the disallowance notice on OSE's future business prospects – and suitably factor them in its ratings, as required.

Currently, the ratings of the bank facilities of OSE factor 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 improved liquidity position of the company on account of the establishment of Oriental Infra Trust (OIT; InviT) and resultant benefit from a regular stream of interest and dividend distribution from OIT.

The rating strengths, however, are tempered by, moderate order book position, declining operational & financial performance of the company during FY20, the uncertainty regarding the timing of the on-going Covid-19 pandemic clearing out, which impacted the Q1FY21 operational performance of the company, 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.

Rating Sensitivities

Positive Factors

- Continued monetisation of assets thereby providing financial flexibility to the company
- Further improvement in gearing levels and maintaining a healthy liquidity position on an on-going basis.

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

Negative Factors

- Any adverse report of the Expert Committee appointed by NHAI or any further action of NHAI having any adverse implication on OSE and/or its prominent personnel, with respect to the incident of the collapse of flyover, which could impact the operations of the company
- 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

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 main 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 timely manner including its road BOT projects under SPVs.

Regular inflows from InvIT leading to improved liquidity

OSE has formed an infrastructure investment trust (InvIT) by transferring 5 operational SPVs (1 Annuity road project, 4 Toll road projects) to Oriental Infra Trust (OIT) for a total enterprise value of Rs.11,638 crore. From the InvIT proceeds, OSE group has received a consideration of Rs.540 crore by selling its share under 'offer for sale' to the InvIT. OSE has received a net inflow of Rs. 871.75 crore which also includes unwinding of unsecured group loans. The cash inflow from the InvIT has improved the liquidity position of the company. Further, as a result of InvIT transaction, the net worth of the company has improved to Rs.2611.96 crore as on March 31, 2020 (prov.) leading to comfortable gearing of 0.44x 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 interest and distribution income from the surpluses of the trust. During FY20, OSE and OTPL received approximately Rs. 142 crore in FY20 and Rs. 114 crore till June 30, 2020 as distribution from InvIT.

Going forward, InvIT would be a vehicle by which OSE can monetize its operational road assets on a continuing basis, thereby providing significant financial flexibility to the company.

Moderate financial performance

As per FY20 (prov.) results, OSE's (standalone) operating income has declined by about 21%, on year-on-year basis, to Rs.2280.93 crore as against operating income of Rs.2764.05 crore during FY19. This is primarily on account of external reasons such as land acquisition issues and delays in getting approvals in its 3 HAM projects namely BInjhabahal- Telebai, Rajiv Chowk and Kallagam Meensurutti and prolonged monsoon during FY20. Despite the decline in the revenues, the operating margin of the company remained stable as reflected by PBILDT margin of 17.35% in FY20 as against 17.50% in FY19.

The overall gearing ratio (standalone) improved to 0.44x as on March 31, 2020 (0.71x as on March 31, 2019) on account of increase in net worth on account of sale of assets to Invit. Additionally, the company is expected to receive regular distribution income from the surpluses of the trust, leading to sustainenance of comfortable capital structure and coverage indicators going forward as well.

During Q1FY21, OSE was able to achieve billings of about Rs.262 crore primarily on account of lockdown announced owing to COVID 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, which is expected to normalize post monsoons. 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

Moderate order book position

OSE has a moderate unexecuted EPC and coal mining order book position of 3,280 crore (Rs.2,940 crore EPC and Rs.340 crore coal mining) as on April 01, 2020, which translates into 1.44x of FY20 total income. Order book position of the company has declined as compared to Rs.4205 crore of unexecuted orders as on September 30, 2019. OSE has not received any new orders in FY 20 and 5MFY 21 leading to a decline in the order book, though the company has currently submitted bids for new projects aggregating to about Rs.5000 crore. However, the bidding would remain hampered in light of the issue

regarding disallowance by NHAI towards fresh bidding. Therefore, the resolution of this issue with NHAI and clarity regarding the bidding status of the company would be 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 through the proceeds of Invit Issue. Further, 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.55 crore as on July 31, 2020. The average utilization of fund based working capital limits were comfortable at 35% for 12 months ending June 30, 2020. The company has principal repayments of around Rs.187 crore in FY21 vis-à-vis gross cash accruals of Rs.232 crore in FY20. Moreover, the company would also receive distribution income from OIT annually which is expected to maintain its liquidity position.

OSE had availed moratorium for its term loan installments 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.

Analytical approach: Standalone factoring in support/ investments to its subsidiary/ associate companies.

Applicable Criteria

CARE's criteria on rating outlook and credit watch
CARE's Policy on Default Recognition
CARE's Policy on curing period
Rating methodology-Construction Sector
Rating Methodology- Consolidation and Factoring linkages in Ratings
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. Dabur group holds minority stake of 4.72% 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 7 road projects under various Special Purpose Vehicles (4 BOT Toll and 3 HAM), of which all 4 BOT projects are operational and 3 HAM projects are under execution. During the FY15, OSE had also forayed into the coal mining segment.

In June 2019, OSE has sold 5 operational road assets to Oriental Infra Trust (Invit). OSE and its wholly-owned subsidiary, Oriental Tollways Private Limited (OTPL) are sponsors of Oriental InfraTrust and hold 60.45% stake in InvIT and rest is 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 (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (Prov.)
Total operating income	2,436.69	2,764.05	2280.93
PBILDT	465.37	404.81	395.69
PAT	221.97	120.96	171.15
Overall gearing (times)	0.90	0.71	0.44
Interest coverage (times)	4.35	2.73	3.07

A: Audited; Prov: Provisional

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 (Under Credit watch with Negative Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	1535.00	CARE A / CARE A1 (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	Dec 2031	644.44	CARE A (Under Credit watch with Negative Implications)

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 (Under Credit watch with Negative Implications)	-	1)CARE A; Stable (03-Feb-20) 2)CARE A- (Under Credit watch with Developing Implications) (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 / CARE A1 (Under Credit watch with Negative Implications)	-	1)CARE A; Stable / CARE A1 (03-Feb-20) 2)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (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	644.44	CARE A (Under Credit watch with Negative Implications)	-	1)CARE A; Stable (03-Feb-20) 2)CARE A- (Under Credit watch with Developing Implications) (13-Dec-19) 3)CARE A-; Stable (05-Apr-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (26-Dec-17) 2)CARE BBB+; Stable (05-May-17)
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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name – Mr. Harish Chellani
Contact No. – 011-4533 3222
Email ID – harish.chellani@careratings.com

Relationship Contact
Name - Swati Agrawal
Contact no. : +91-11-45333237
Email ID – swati.agrawal@careratings.com

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