Oriental Structural Engineers Private Limited

December 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities – Term Loan	784.06	**CARE A- (Single A Minus) (Credit watch with developing implications)**	**Placed on Credit watch with developing implications**
Long-term/Short-term Bank Facilities – LC/BG	1,250	**CARE A- / CARE A2+ (Single A Minus /A Two Plus) (Credit watch with developing implications)**	**Placed on Credit watch with developing implications**
Total Facilities	**2,034.06 (Rupees Two Thousand Thirty Four crore and Six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings of Oriental Structural Engineers Pvt Ltd (OSE) on credit watch with developing implications following the Income Tax search on the Oriental Group. CARE is in the process of assessing the exact implications of the same on the operational and financial profile of OSE.

The ratings of Oriental Structural Engineers Private Limited (OSE) continue to factor in the moderate financial performance of the company during FY19 and H1FY20, moderate order book position, enhanced liquidity position on account of establishment of Invit, long and established track record of OSE in the construction industry and experienced promoters and management team.

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

Rating Sensitivities:

Positive factors:

- Increase in scale of operations by 15%-20% and maintain profitability at current levels for 2-3 years
- Improvement in order book position with a revenue visibility of 2.5x-3x with quality counterparties
- Improved gearing levels at below unity levels on a sustained basis

Negative factors

- Adverse implications of the income tax search
- Significant delay in the term debt disbursement in the HAM projects impacting cash flow cushion and liquidity of OSE
- Delays in the progress of ongoing projects/orders leading to significant 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 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 its road BOT projects under SPVs.

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

Establishment of Invit

OSE has formed an infrastructure investment trust (Invit) by transferring 5 operational SPVs (1 Annuity road project, 4 Toll road projects) for a total enterprise value of Rs.11,638 crore. From the Invit proceeds, the OSE group has received a consideration of Rs.540 crs by selling its share under 'offer for sale' to the Invit. OSE has received a net inflow of Rs. 871.75 crs which also includes unwinding of unsecured group loans . The cash inflow from the Invit has improved the liquidity position of the company substantially (refer liquidity section below). Additionally, the company is expected to receive interest and dividend income annually from the surpluses of the trust.

Moderate financial performance during FY19

During FY19, OSE's (standalone) operating income increased by 13.43% Y-o-Y to Rs.2764.05 crore and PAT declined by 10% Y-o-Y to Rs.199.91 crore (after adjusting one time write off of Rs. 78.95 crore). PBILDT margin declined to 17.50% in FY19 as compared to margin of 19.10% in FY18 an account of write-offs of Rs. 112.08 crore. Various orders have picked up pace such as Binjhabahal-Telebani, Rajiv Chowk project, Agra-Etawah and Purvanchal expressway projects in FY20 providing substantial revenue visibility for FY20.

During H1FY20 (Prov.), the company has reported total income of Rs.1,112.29 crore and PAT of Rs.75.56 crore.

Moderate order book position

OSE has a moderate unexecuted EPC and coal mining order book position of 4,205 crore (Rs.3821 crore EPC and Rs.384 crore coal mining) as on September 30, 2019, which translates into 1.52x of FY19 total income. Order book position of the company has declined as compared to Rs.8,626 crore of unexecuted orders as on June 30, 2018 on account of cancellation of some works in the order book viz. Amravati-Chikali road work (Order worth Rs. 949.21 crore), an ITNL project was cancelled by NHAI and Villupuram-Puduchery HAM project (Order worth Rs. 949.21 crore) by NHAI. However, the company is planning to bid for new orders in the road segment either in EPC mode or under Hybrid Annuity Model.

Key Rating Weaknesses

Moderate debt coverage indicators

The overall gearing ratio (standalone) improved to 0.71x as on March 31, 2019 (0.90x as on March 31, 2018) on account of enhanced net worth because of accretion of profits and reduction in debt levels. The gearing has improved further to 0.47x as on September'19 because of the profits realized from the transfer of its SPVs to the Invit. Interest coverage ratio moderated to 2.73x in FY19 as compared to 4.35x in FY18. The interest coverage ratio stood at 3.27x as on September 30, 2019.

The liquidity of the company has improved considerably. The average utilization of fund based limits during the 12 months period ending September 2019 stood at 58.07%. Moreover in the period July'19 – Sept'19, which is the period post invit, the CC utilization has reduced to an average 5.5%.

Investment requirement in HAM projects and support towards BOT projects

The company has met part equity commitment for Binjhabahal-Telebani and Kallagam projects through the proceeds of Invit Issue. The remaining equity requirement amounting to Rs.141.46 crore for the HAM projects will be met from internal accruals in FY20-FY21. Further, with the transfer of some of the SPVs to the Invit, the company has underlying HAM projects in which debt is tied up and part equity has already been infused. The company also has three operational toll projects where support required from OSE is limited. However, going forward, if the company undertakes more HAM projects, there will be an increase in the equity requirements in the SPVs.

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.

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: As on November 13, 2019, the Company had cash and bank balance of Rs. 1.43 crore, mutual fund investment of Rs. 25 crore and FDR of Rs. 58 crore. Average utilization of fund based limits during the 12 months period ending September 2019

remained moderate at 58.07%. Moreover in the period July'19 – Sept'19, which is the period post invit, the CC utilization has reduced to an average 5.5%.

Analytical approach: Standalone

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

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 7 road projects under various Special Purpose Vehicles (4 BOT Toll and 3 HAM), of which 4 BOT projects are operational and 3 HAM projects are under execution. . During FY15, OSE had also forayed into the coal mining segment.
In June 2019, OSE has sold 5 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.

Brief Financials (Rs. crore)	FY19 (A)	FY18 (A)
Total operating income	2,764.05	2,436.69
PBILDT	404.81	465.37
PAT	120.96	221.97
Overall gearing (times)	0.71	0.90
Interest coverage (times)	2.73	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

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 Developing Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	1250.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	Sep-2024	534.06	CARE A- (Under Credit watch with Developing 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE A- (Under Credit watch with Developing Implications)	-	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)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1250.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)	1)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)	1)CARE A- / CARE A2+ (27-Apr-16)
3.	Fund-based - LT-Term Loan	LT	534.06	CARE A- (Under Credit watch with Developing Implications)	1)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)	1)CARE A- (27-Apr-16)
4.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (26-Dec-17) 2)CARE A2 (05-May-17)	1)CARE A2+ (27-Apr-16)

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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