Oriental Structural Engineers Private Limited

December 26, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	370 (enhanced from 325)	**CARE A-; Stable (A Minus; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Long-term/Short-term Bank Facilities	790 (enhanced from 700)	**CARE A-; Stable/CARE A2+ (A Minus; Outlook: Stable/A Two Plus)**	**Revised from CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**
Short-term Bank Facilities	-	**-**	**Withdrawn***
Total	**1,160 (Rupees One Thousand One Hundred and Sixty crore only)**		

Details of instruments/facilities in Annexure-1

**CARE has withdrawn the rating assigned to the short-term bank facilities of the company with immediate effect, as the company has repaid the said bank facility in full and there is no amount outstanding under the said bank facility.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Oriental Structural Engineers Private Limited (OSE) factor in improved financial performance during FY17 (refers to the period April 01 to March 31) and H1FY18, strong order book position and improvement in debt coverage indicators. The ratings, further, derive comfort from long and established track record of OSE in the construction industry and experienced promoters and management team.

The ratings, however, continue to be constrained by moderate liquidity position and subdued performance of some of its Build-Operate-Transfer (BOT) projects. The ratings also continue to be constrained by 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 the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance during FY17 and H1FY18

OSE's standalone operating income increased by 35.75% Y-o-Y to Rs.1,659.86 crore and PAT increased by 42.98% Y-o-Y to Rs.138.19 crore in FY17. PBILDT margin at 23% remained at comfortable level. Start of work on Biaora-Dewas project from Q2FY17 and Agra-Etawah Project from Q3FY17 as well as significant growth in revenue from coal mining contracts (Rs.192.54 crore in FY17 as against Rs.104.15 crore in FY16), resulted in the growth. The overall gearing ratio on standalone basis remained moderate at 0.88x as on March 31, 2017, mainly due to increase in mobilization advances (0.81x as on March 31, 2016). The interest coverage ratio, however, improved from 2.85x in FY16 to 3.46x in FY17.

During H1FY18 (Provisional), the company reported total operating income of Rs.979.90 crore and PAT of Rs.95.81 crore as against as against total operating income of Rs.688.58 crore and PAT of Rs.48.50 crore during H1FY17 (Provisional).

Strong order book position

OSE has a strong unexecuted order book position of Rs.6,692 crore (Rs.5,964 crore EPC and Rs.728 crore coal mining) as on September 30, 2017, which translates into 4.03x FY17 operating income.

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.

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

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.

Industry Outlook

With increased focus on infrastructure sector by the government, especially the road sector, outlook on the industry is stable.

Key Rating Weaknesses

Moderate liquidity position

The working capital limit utilization was relatively high at over 90% for the 12 month period ending November 2017. Also, payable days remained relatively high at 124 days in FY17 (177 days in FY16). However, the company's liquidity is expected to be supported due to elongation of debt maturity profile, receipt of mobilization advances, realization of arbitral claims from NHAI and release of surplus funds from its SPV, Oriental Nagpur Betul Highway Limited (ONBHL).

Investment requirement and support towards BOT projects

OSE has a portfolio of 10 BOT road projects under various SPVs, of which 8 are operational. For the under execution Binjhabahal-Telebani project, the equity requirement will be met through additional NCD issue of Rs.139.36 crore in ONBHL. However, OSE may need to provide sponsor support to Oriental Pathways (Nagpur) Pvt Ltd which has been impacted on account of relatively lower toll revenue and to Biaora To Dewas Highway Private Limited (BDHPL) towards initial period support required. Also, ONBCPL's restructuring approval, which had been impacted on account of pending completion of the entire project and sanction of revenue shortfall loan for GMR OSE Hungund Hospet Highways Pvt Ltd is expected to help improve the financial profile of 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. The in-house EPC projects comprise about 42% of the unexecuted order book as of September 30, 2017.

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
Policy on Withdrawal of 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. GE Capital and Dabur group hold minority stakes in the company.

OSE has presence in infrastructure sector with specialization in roads and highways segment. During FY15, OSE has also forayed into the coal mining segment. Also, OSE has a significant presence in road BOT projects. OSE along with its wholly-owned subsidiary (Oriental Tollways Private Ltd.) has a portfolio of 10 BOT road projects under various Special Purpose Vehicles (SPVs). Out of these projects, 8 projects are operational, one is under execution and for one financial closure is recently achieved.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,222.77	1,659.86
PBILDT	300.33	381.81
PAT	96.65	138.19
Overall gearing (times)	0.81	0.88
Interest coverage (times)	2.85	3.46

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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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 A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	790.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	Dec-2020	120.00	CARE A-; Stable
Fund-based - ST-Term loan	-	-	-	0.00	Withdrawn

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 A-; Stable	1)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	790.00	CARE A-; Stable / CARE A2+	1)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	120.00	CARE A-; Stable	1)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)CARE A2 (05-May-17)	1)CARE A2+ (27-Apr-16)	1)CARE A1 (10-Apr-15)	-

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