

May 17, 2024

## IRM Offshore and Marine Engineers Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Others	15.00	15.00	[ICRA]BBB+(Stable); reaffirmed
Short-term – Non-fund based limits – Others	9.95	9.95	[ICRA]A2; reaffirmed
Long-term/Short-term – Fund based/Non-fund based limits – Others	33.00	33.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Long-term/Short-term – Unallocated limits	17.05	17.05	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
<b>Total</b>	<b>75.00</b>	<b>75.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings assigned to the bank lines of IRM Offshore and Marine Engineers Private Limited (IRM or the company) factor in the established track record of the company in supplying sophisticated rubber products for marine applications, backed by an experienced and qualified management, established pre-qualifications and empanelment with major oil companies, port authorities and engineering, procurement and construction (EPC) contractors. The ratings also factor in IRM's moderate competitive intensity in the domestic market and the company's expansion across new geographies, helping drive growth and diversification. ICRA also notes that the products supplied by IRM form less than 1% of the overall project cost of its customers. Thus, the customers are less sensitive to changes in the prices of the products, while IRM's superior product quality ensures that it gets repeat orders.

The ratings factor in the healthy outstanding order book position of ~Rs. 210 crore as on January 31, 2024, providing revenue visibility over the near term. Further, the ratings consider the company's healthy financial risk profile, characterised by comfortable capital structure and satisfactory coverage metrics. The company's TD/OPBDITA was close to nil as on September 30, 2023, as per the provisional results, against 0.66 times as on March 31, 2024.

The ratings, however, are constrained by IRM's relatively modest operations compared to the large foreign players and the vulnerability of its profitability to any significant raw material price variations during the execution of orders (due to the fixed price contracts). ICRA notes that the company's revenue realisation remains exposed to project execution risks. The company's margins also remain exposed to foreign exchange risk.

The Stable outlook reflects ICRA's expectations that IRM will continue to benefit from its experienced management team and its empanelment with reputed customers, which will also support its credit profile.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters and established pre-qualification and empanelment with major ports, oil companies and EPC contractors** - IRM is currently managed by its second-generation promoters, Mr. Nishith Soni, Mr. Swapnil Soni and Ms. Trupti Soni. The promoters have over five decades of experience in industrial rubber and marine and offshore product businesses. They are supported by a team of over 130 personnel spread across various functions, including engineering, designing, marketing, finance and administration. IRM benefits from its established operational track record, which includes several

contracts executed for Indian port authorities. Over the years, IRM has received several technical certifications that support its technical bids. In addition, IRM is an approved supplier for various oil companies (who possess offshore platforms) and EPC contractors (who build offshore platforms). Further, the high technical requirements in fender and offshore platform businesses ensure high entry barriers to these segments; the company, however, faces competition from overseas players in the export market.

**Diversified presence across segments; caters to reputed customers** - The company is present across all rubber-engineered items required in marine application. The share of marine and boat fenders in the total revenue stood at 54% in FY2023 against 65% in FY2022. Additionally, IRM manufactures and sells pneumatic fenders, offshore platforms and dock accessories. IRM's orders are well distributed among reputed export customers consisting of port authorities, EPC players operating in the oil and gas sector, as well as oil and gas sector companies. In the last two to three years, the company executed major orders for reputed clients in the domestic and international markets. While the customer concentration remains high with the top 10 clients contributing to a major share of the revenue, their strong counterparty credit profiles provide comfort.

**Stable profitability and healthy coverage metrics** - While the operating margin remained in the range of 6-8% in the past (FY2021-FY2023), it improved to 10% in H1 FY2024 due to an increase in scale and change in product mix. For FY2024, the profitability is expected to improve significantly with the execution of offshore orders. As on March 31, 2023, the gearing stood at 0.17 times compared with 0.39 times as on March 31, 2022 due to the decreased borrowings and improved profitability. The company's coverage metrics had improved in FY2023 and are expected to improve further in FY2024. The interest coverage improved to 8.8 times in FY2023 from 6.8 times in FY2022 due to the moderation in the debt levels which reduced the interest expenses and pushed up the operating profits. The total debt/OPBITDA also decreased to 0.7 times as on March 31, 2023, from 2.3 times as on March 31, 2022. During H1 FY2024, the interest coverage stood at 10.4 times and the company remained net debt free.

### Credit challenges

**Modest scale of operations** - IRM's products form less than 1% of the total project investment cost. However, their applications remain critical for project safety and as a result, customers generally do not compromise on quality. Given the comparatively small market size of its products, both in India and abroad, the company's overall scale of operations remains modest. The revenue growth was healthy in FY2024 and is expected to be around Rs. 230-240 crore. The sustenance of revenue growth will remain a key monitorable.

**Raw material price fluctuation risk; currency-related risk on exports** - The company places orders for raw materials immediately on securing sales orders. However, in case of any delay in execution due to constraints on the part of clients, the company is not able to pass on the increase in raw material prices to its customers due to the fixed-price contracts. The risk is mitigated to some extent by its policy of taking advances from its customers at the time of order acceptance. Nonetheless, in case of any higher-than-planned procurement, the margins remain exposed to adverse fluctuations in steel and rubber prices. Moreover, IRM does not have a natural hedge of foreign currency as it procures primarily from domestic suppliers. Thus, the company's margins remain exposed to forex risks to the extent of its unhedged currencies.

**Execution risk associated with ongoing customer projects** - IRM has significant exposure to the project execution risk of its customers, as the projects can be affected by delays on behalf of the clients as well as due to unforeseen circumstances. As some projects extend up to a year, such delays may stretch the revenue realisation and block the working capital through any advance inventory procurement.

### Liquidity position: Adequate

IRM's liquidity position remains adequate with annual fund flow from operations of Rs. 7.0 crore in FY2023 and free cash and liquid investment of ~Rs. 6 crore as on March 31, 2023 (~Rs. 32 crore as on September 30, 2023). The company had mutual fund investment of around Rs. 45 crore as on March 31, 2024, which along with net cash accruals of Rs. 25-30 crore on an ongoing basis will enable the company to fund its capex plans through internal funds. The company also had a sanctioned

fund-based working capital facility of Rs. 25.0 crore, the average utilisation of which remained low at around ~14% over the last 12 months ended March 2024. The company plans to incur capex in the range of Rs. 45-50 crore over the next three years, apart from regular maintenance expenses. Further, the company does not have any term loans and hence, does not have repayment obligations.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company demonstrates a significant increase in its scale of operations and profit margins on a sustained basis while maintaining its credit profile.

**Negative factors** – Pressure on the ratings could arise if there is a decline in the scale or profitability on a sustained basis, and/or if there is a sizeable debt-funded capital expenditure, or if the working capital intensity is stretched, weakening the liquidity profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

## About the company

IRM Offshore and Marine Engineers Private Limited (IRM) started its operations in 1964, though as a different entity with the same name. It began with the manufacturing of rubber and allied items for the textile, engineering and mining industries. With expansions and new products targeted towards manufacturing import substitutes, the entity grew into a multi-divisional company offering more than 2,000 specialty rubber engineering products and services, mainly for offshore and onshore oil drilling, marine and infrastructure industries.

In August 2020, under a scheme of arrangement, the manufacturing operations along with the bank facilities of erstwhile IRM Offshore and Marine Engineers Private Limited were transferred to another entity – SAS Offshore and Marine Engineers Private Limited - which has been subsequently renamed IRM Offshore and Marine Engineers Private Limited (the rated entity). The erstwhile IRM Offshore and Marine Engineers Private Limited was renamed IRM Infraprojects Private Limited, which houses the real estate projects of the Group. IRM has sales offices in Netherlands and Brazil under wholly-owned subsidiaries. IRM is the flagship company of the IRM Group.

## Key financial indicators (audited)

IRM Standalone	FY2022	FY2023	H1FY2024*
Operating income	100.7	159.9	90.0
PAT	3.9	9.6	5.8
OPBDIT/OI	6.1%	7.3%	10.0%
PAT/OI	3.8%	6.0%	6.5%
Total outside liabilities/Tangible net worth (times)	1.7	1.2	1.0
Total debt/OPBDIT (times)	2.3	0.7	0.0
Interest coverage (times)	6.8	8.8	10.4

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date and rating in FY2025	Date and rating in		
					FY2024	FY2023	FY2022
				May 17, 2024	-	Mar 24, 2023	-
1 Fund-based limits - Others	Long-Term	15.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	-
2 Non-fund based limits - Others	Short-term	9.95	-	[ICRA]A2	-	[ICRA]A2	-
3 Fund-based/Non-fund-based limits - Others	Long-term/Short-term	33.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-
4 Unallocated limits	Long-term/Short-term	17.05	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limits – Others	Simple
Short-term – Non-fund based limits – Others	Very Simple
Long-term/Short-term – Fund based/Non-fund based limits – Others	Simple
Long-term/Short-term – Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term – Fund-based limits – Others	-	-	-	15.00	[ICRA]BBB+ (Stable)
NA	Short-term – Non-fund based limits – Others	-	-	-	9.95	[ICRA]A2
NA	Long-term/Short-term – Fund based/Non-fund based limits – Others	-	-	-	33.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Long-term/Short-term – Unallocated limits	-	-	-	17.05	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis - Not Applicable

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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