

April 19, 2021

Coastal Marine Construction and Engineering Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	45.0	45.0	[ICRA]A+ (Stable); Reaffirmed
Long-term Fund Based – Cash Credit	40.0	40.0	[ICRA]A+ (Stable); Reaffirmed
Short- Term Non Fund Based Limits	310.0	310.0	[ICRA]A1+; Reaffirmed
Total	395.0	395.0	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings takes into account the healthy financial profile of Coastal Marine Construction and Engineering Limited (COMACOE) characterised by low leverage with TOL/TNW of ~0.34 times as on March 31, 2020 and strong coverage indicators with interest cover and Total Debt/OPBDITA at ~22.4 times and ~0.11 times respectively in FY2020. The company is expected to report a modest decline in revenue to Rs ~257 crores in FY2021, despite lower execution in Q1 FY2021 due to Covid-19 pandemic-induced challenges as execution recovered strongly during Q3 and Q4 FY2021. Given the in-house survey team and consultants for carrying out pre-construction design works, the operating margins of COMACOE have remained robust in the range of 33-37% over last three years and expected to remain at similar levels going forward. With no new debt envisaged, the coverage indicators are expected to remain healthy. The ratings continue to favourably factor in the company's healthy liquidity position with significant unencumbered cash balances of ~Rs. 278 crore crores as on December 31, 2020 and unutilised bank limits of Rs. 20.0 crore providing it significant financial flexibility. Further, the ratings also factor in the extensive experience and established position of the management in the pre-engineering and pre-construction geotechnical investigation services for the oil and gas sector and execution track record in marine-construction projects.

The ratings, however, are constrained by high project concentration with three largest orders accounting to 62% of the unexecuted order book as on December 31, 2020. About ~31% of the outstanding orderbook is in nascent stages of less than 25% completion as of December 31, 2020 thereby exposing COMACOE to execution risks. Given the specialized nature of services offered by COMACOE, the scale of operations remains modest and segment concentration remains high with marine segment alone accounting for the entire pending order book. Further, the rating also remains constrained by the delays in receipt of payments from certain customers which along with high execution in Q4 had resulted in high debtor days which stood at 216 days as on March 31, 2020. Of these ~23% were pending for more than 180 days as on March 31, 2020. However, ICRA notes that the company realized some of these receivables during FY2021. With lower order additions in last three quarters, the company experienced a decline in order book to Rs. 499 crores (~1.9 times the operating income of FY2020) as on December 31, 2020 from Rs. ~824 crore as on November 30, 2019 on account of the Covid-19 pandemic, however the tender pipeline is healthy, and the management expects to recoup its order book position in FY2022. Inability of COMACOE to timely replenish its orderbook thereby resulting in lower revenue visibility will be a credit negative. ICRA takes note of absence of price variation clause in its contracts, thus exposing the operating margin of the company to cost escalation risk.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that COMACOE will continue to benefit from its long track record of operations, strong financial profile and experienced management.

Key rating drivers and their description

Credit strengths

Extensive experience and established position of the management in the geotechnical investigation, survey work in oil and gas sector industry and strong execution track record in the marine construction segment - The management has extensive experience of ~25 years and established position in the pre-engineering and pre-construction geotechnical investigation services for the oil and gas sector and other marine-construction projects. The company has a demonstrated track record in execution of projects in geotechnical investigation and survey work in oil and gas sector industry along with the EPC (pipeline construction) industry.

Healthy financial risk profile - The company has a healthy financial profile characterised by low leverage with TOL/TNW of ~0.34 times as on March 31, 2020 and strong coverage indicators with interest cover and Total Debt/OPBDITA at ~22.4 times and ~0.11 times respectively in FY2020. The company is expected to report a modest decline in revenue to Rs ~257 crores in FY2021, despite lower execution in Q1 FY2021 due to Covid-19 pandemic-induced challenges as execution recovered strongly during Q3 and Q4 FY2021. Given the in-house survey team and consultants for carrying out pre-construction design works, the operating margins of COMACOE have remained robust in the range of 33-37% over last three years and expected to remain at similar levels going forward. With no new debt envisaged, the coverage indicators are expected to remain healthy

Strong liquidity position - The company has a healthy liquidity position with significant unencumbered cash balances of ~Rs. 278 crores as on December 31, 2020. That apart, the company's sanctioned bank limits remained unutilised in the past twelve months leading up to November 2020.

Credit challenges

High order book concentration – Notwithstanding the strong presence of the company in geo-technical services, marine construction works and marine terminal management, the segment concentration remains high with marine segment alone accounting for the entire pending order book. COMACOE is also exposed to high project concentration with three largest orders accounting for ~62% of the unexecuted order book as on December 31, 2020. About ~31% of the outstanding orderbook is in nascent stages of less than 25% completion as of December 31, 2020 thereby exposing COMACOE to execution risks. With lower order additions in last three quarters, the company experienced a decline in order book to Rs. 499 crores (~1.9 times the operating income of FY2020) as on December 31, 2020 from Rs. ~824 crore as on November 30, 2019 on account of the Covid-19 pandemic, however the company has a healthy pipeline and the management expects to recoup its order book position in FY2022.

Modest scale and high receivable position – Given the specialized nature of services offered by COMACOE with major focus on a sole segment, the company's scale remains modest. Delays in receipt of payments from certain customers which resulted in high debtor days which stood at 216 days as on March 31, 2020. Of these ~23% are pending for more than 180 days. However, ICRA notes that the company has started realizing some of these receivables during the current financial year.

Absence of price variation clause – COMACOE does not have a price variation clause in its contracts, thus exposing the operating margin of the company to cost escalation risk.

Liquidity position: Strong

COMACOE's liquidity is **strong**. The company has unencumbered cash of ~Rs. 278 crores as on December 31, 2020 apart from unutilised bank lines of Rs. 20.0 crore resulting in a healthy liquidity position and providing it a strong buffer to counter short-term volatilities. The company's debt repayment obligation in FY2022 of Rs. 3.88 crore can be comfortably met through the cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade Coastal Marine's rating if the company scales up significantly and materially diversifies its business presence while maintaining its current financial risk profile on sustained basis.

Negative factors – Negative pressure on Coastal Marine’s rating could arise if there is a sizeable debt-funded capex/inorganic expansion and/or further stretch in receivable position and/or material decline in its operating margin leading to significant weakening of the liquidity. Negative pressure may also arise, if there is reduction in company’s orderbook, resulting in lower revenue visibility and decline in its operating income.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1995 by Cdr. Dilbagh Rai, who was the Chief Hydrographic Instructor in the Indian Naval Hydrographic Department, Coastal Marine Construction and Engineering Limited (COMACOE) is engaged in providing pre-engineering and pre-construction geotechnical investigation services to the Oil & Gas sector and other marine-construction projects and in EPC work for marine projects. Over the years, apart from surveys and investigation work, the company has acquired vast experience through projects involving foundation engineering, diving, trenching and pipe laying. Apart from India, COMACOE’s projects have spanned across various countries including Senegal, Qatar, Iran, Iraq, UAE, Sudan, Vietnam, Malaysia, Brunei, Mexico, Mozambique, Mauritius, Bangladesh, Tanzania, Yemen, Nigeria.

Key financial indicators (audited)

COMACOE Standalone	FY2019	FY2020
Operating Income (Rs. crore)	252.5	266.7
PAT (Rs. crore)	62.2	63.4
OPBDIT/OI (%)	35.6%	32.6%
PAT/OI (%)	24.6%	23.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.68	0.34
Total Debt/OPBDIT (times)	0.16	0.11
Interest Coverage (times)	15.8	22.4

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	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Apr 19, 2021	Mar 05, 2020	Oct 01, 2018	Apr 21, 2017
1	Term Loan	Long Term	45.0	8.4	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Cash Credit	Long Term	40.0	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Letter of credit/Bank guarantee	Short Term	310.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2018	NA	FY2023	45.0	[ICRA]A+(Stable)
NA	Cash Credit	-	NA	-	40.0	[ICRA]A+ (Stable)
NA	Letter of credit/Bank guarantee	-	NA	-	310.0	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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