

December 31, 2021

Onshore Construction Company 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	1.70	1.70	[ICRA]A- (Stable); reaffirmed
Short Term - Non-Fund Based	150.00	200.00	[ICRA]A2+; reaffirmed
Short Term - Unallocated limits	68.30	18.30	[ICRA]A2+; reaffirmed
Long term/Short term Fund based limits^	(20.00)	(25.00)	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	220.00	220.00	

*Instrument details are provided in Annexure-1;

^Long Term / Short Term – Interchangeable is a sublimit of Non-Fund Based Limits

Rationale

The reaffirmation of the ratings favourably factors in Onshore Construction Company Private Limited's (OCCPL) healthy financial profile marked by low leverage (TOL/TNW at 1.1 times as on March 31, 2021), modest working capital intensity and adequate liquidity cushion. The company has been able to manage its operations with low working capital intensity supported by the availability of credit period from suppliers and mobilisation of advances from customers. The ratings continue to draw comfort from the extensive experience of OCCPL's promoters and their strong execution capabilities in the piping and tankage construction industry, and its reputed clientele. ICRA notes that OCCPL's operating profitability was impacted in FY2021 because of a negative operating leverage (in the backdrop of a 41% decline in revenue) and commodity headwinds. However, the company's operations bounced back in FY2022 with the company clocking a revenue of around Rs 250 crore in 8M FY2022. Supported by a recovery in the operating and financial performance, ICRA expects the company's debt coverage indicators to remain comfortable with interest cover of over 3.5 times in FY2022e and over 4 times from FY2023 onwards. The rating also takes into account the adequate order inflows of Rs. 187 crore in FY2021 and Rs. 196 crore in 8M FY2022, which has supported a moderate order book position of Rs. 420 crore as of November 2021. The OB/OI ratio is adequate at 1.67 times (average execution of project execution is 24 months-36 months) the standalone operating income (construction) of FY2021, providing near-term revenue visibility. A timely execution of these orders is critical to sustain revenue recognition going forward.

The ratings are, however, constrained by OCCPL's scale of operations, modest profitability and its high order book concentration. While the company has a pan-India presence and operations in a few foreign countries viz. Nigeria and Jordan; it has high exposure to a few states. Further, segment, project and client concentration of the order book remains high. The refinery segment accounted for 62% of the unexecuted order book, the top 10 orders made up for 90% of the unexecuted order book and the top 3 clients contributed 67% to the unexecuted order book as on March 31, 2021. The ratings are further constrained by the moderate execution risk as a major part of the order book is in a nascent stage of execution. ICRA notes that the requisite approvals are in place for most of the orders, which will improve the pace of execution. The ratings also note the stiff competition in the construction sector and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from the company's execution track record and absence of invocation of guarantees in the past.

The Stable outlook reflects ICRA's expectation that the company would maintain a healthy financial profile, characterised by adequate profitability, a comfortable capital structure and healthy debt coverage indicators because of its low reliance on external borrowings and the healthy cash accruals.

Key rating drivers and their description

Credit strengths

- **Comfortable leverage and debt coverage metrics** – The company has a comfortable capital structure, with TOL/TNW of 1.1 times as on March 31, 2021 because of its low dependence on external borrowings, aided by a healthy working capital cycle. Additionally, mobilisation advances from customers support the working capital funding requirements. The debt coverage indicators have moderated in FY2021. However, the coverage indicators are expected to improve in FY2022, backed by healthy cash accruals.
- **Extensive experience of promoters; strong execution capabilities; reputed clientele** - The company is promoted by Mr. Belle Seetharam Hariyanna Shetty and his family, who have an experience of over three decades in the piping and tankage construction industry. The company has completed over 250 projects and has strong execution capabilities, evident from the repeat business it has secured from its customers. Its clientele includes large and reputed players in a diverse range of industries, including oil & gas, fertilisers and chemicals.
- **Adequate order book provides near-term revenue visibility** - The order inflow of the company remained moderate in FY2021, with addition of orders worth Rs.187 crore in FY2021. The new orders along with the regular order inflows of the past led to a moderate order book position of Rs. 429.3 crore as on March 31, 2021. The order inflows in 8M FY2022 improved to Rs. 196 crore and the domestic order book stood at Rs. 420 crore. The OB/OI ratio is adequate at 1.67 times the standalone operating income (construction) of FY2021 and at 1.29 times the average standalone operating income (construction) of the last three years (FY2019-FY2021), providing near-term revenue visibility. A timely execution of these orders is critical to sustain revenue recognition going forward.

Credit challenges

- **Modest scale of operations and modest operating profitability** – The company's scale of operations continues to be moderate, with the operating income declining to Rs. 371.9 crore in FY2021 from 633.4 crore in FY2020, as the pandemic-induced lockdown impacted the work progress in Q1 FY2021. However, given the moderate order book status, the company is estimated to report a moderate revenue growth in the medium term. The construction activity at OCCPL's project sites was not hampered by the second wave of the pandemic as the respective state governments allowed construction activity and the labourers were also housed at the project sites. As a result, OCCPL was able to bill ~Rs.250 crore in 8M FY2022. Further, the company's operating margin continues to be modest and has declined on account of the Covid-induced precautionary measures, which has increased the operating cost and delayed the execution of government orders which are mostly without price variation clauses, leading to higher expenses. Further, the margins were also lower due to the low margins (~4%) in trading activity. ICRA expects the operating margin to improve to 6-7.5% over the medium term, supported by a recovery in the company's operations in FY2022 and built-in price variation clause for new contracts.
- **High order book concentration** – The company has a pan India presence, with operations in a few foreign countries viz. Nigeria and Jordan. However, Andhra Pradesh contributed 35% to the unexecuted order book as on March 31, 2021, resulting in high geographical concentration risk. Further, segment, project and client concentration remain high. The refinery segment accounted for 62% of the unexecuted order book, the top 10 orders made up for 90% of the unexecuted order book and the top 3 clients contributed 67% to the unexecuted order book as on March 31, 2021.
- **Moderate execution risk as sizeable projects are in nascent stages of execution** - The company is exposed to moderate execution risk as 28% of the order book as on March 31, 2021 are in nascent stages of execution (less than 15% executed). ICRA notes that the requisite approvals are in place for all the major orders, which will improve the pace of execution. Going forward, timely completion of large orders that are in nascent stages and maintenance of a healthy working capital intensity remain the key rating sensitivities. OCCPL is exposed to the inherent cyclicity in the construction industry and intense competition in the tender-based contract award system, resulting in a volatility in revenues and pressure on

margins. It is vulnerable to sizeable contingent liabilities in the form of bank guarantees (~Rs. 131 crore as on March 31, 2021), mainly towards performance guarantee, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from OCCPL's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

The company has healthy liquidity with unencumbered cash and bank balance of Rs. 18 crore as of November 2021. The company also has an OD facility of Rs. 50 crore, which is utilised only to the extent of ~Rs. 30 crore, and interchangeable CC facility which is sparingly utilised. The company has a debt repayment obligation of Rs. 4.1 crore in FY2022, which is estimated to be adequately serviced through operating cashflows. The non-fund-based facilities of the company are utilised to the extent of 61% as on September 30, 2021, providing cushion for securing new orders.

Rating sensitivities

Positive factors – The ratings might be upgraded if the company is able to significantly improve its revenues and if the profitability levels increase along with a healthy working capital intensity.

Negative factors – Negative pressure on the ratings may arise if lower-than-anticipated billing or continued pressure on operating profitability results in weak coverage metrics. The ratings could also come under pressure if an elongation in the working capital cycle depletes the company's liquidity cushion. Credit metrics that could lead to a downgrade include the TOL/TNW increasing beyond 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone; For arriving at the ratings, ICRA has considered the standalone financials of Onshore Construction Company Private Limited

About the company

OCCPL, incorporated in 1995, is a closely held private limited company, managed by the Shetty family. The company executes mechanical construction works for clients in a diverse range of industries such as petrochemicals, fertilisers, paints, refineries, vegetable oils, food processing and pharmaceuticals. The scope of work executed by OCCPL includes fabrication of underground and overhead pipes for entire plants, fabrication; erection and installation of storage tanks; equipment erection and installation, besides fabrication and installation of fire-fighting systems. OCCPL also undertakes revamp orders involving the dismantling, fabrication and re-erection of the existing plants/equipment. The company has operations in India; Jordan and Nigeria (operating through opening a branch), Dubai and Malaysia (operating through several associate companies). The company is also into the trading (majorly exports) of engineering goods such as cranes, safety gloves etc.

Key financial indicators

	FY2020	FY2021 Prov
Operating Income (Rs. crore)	633.4	371.9
PAT (Rs. crore)	15.7	6.9
OPBDITA/OI (%)	5.5%	4.7%
PAT/OI (%)	2.5%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1
Total Debt/OPBDITA (times)	0.9	2.2
Interest Coverage (times)	4.6	2.5

Source: Company; 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 on March 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Dec 31, 2021	Oct 23, 2020	Jul 01, 2019	Sep 04, 2018	
1	Fund Based Limits	Long-term	1.7	0.39	[ICRA]A-(Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2	Non-Fund Based Limits	Short-term	200.0	131.0	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
3	Short term-Unallocated limits	Short-term	18.3	0.0	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
4	Long term/Short term Fund based limits [^]	Long Term / Short Term	(25.0)	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	

Source: Company; Amount in Rs. crore: [^]- Long Term / Short Term – Interchangeable is a sublimit of Non-Fund Based Limits

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based	Simple
Short Term - Non-Fund Based	Very Simple
Long term/Short term Fund based limits [^]	NA
Short term - Unallocated limits	NA

[^]Long Term / Short Term – Interchangeable is a sublimit of Non-Fund Based Limits

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 analyzing 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, is available on ICRA's website: [Click Here](#)

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	Equipment loan	NA	NA	NA	1.70	[ICRA]A- (Stable)
NA	Non-Fund Based Limits (BG/LC)	NA	NA	NA	200.00	[ICRA]A2+
NA	Short term Unallocated limits	NA	NA	NA	18.30	[ICRA]A2+
NA	Long term/Short term Fund based limits^	NA	NA	NA	(25.00)	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company ^Long Term / Short Term – Interchangeable is a sublimit of Non-Fund Based Limits

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

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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