February 11, 2022

Oriental Structural Engineers Private Limited: [ICRA]AA- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Term Loan	125.00	[ICRA]AA- (Stable); Assigned
Total	**125.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the rating, ICRA has considered the consolidated financials of Oriental Structural Engineers Private Limited (OSEPL) along with its 100% subsidiary Oriental Tollways Private Limited (OTPL). OSEPL and OTPL are together referred as the Oriental Group.

The rating assigned for OSEPL favourably factors in its strong net worth position, steady income stream and exceptional financial flexibility arising from its investments in Oriental InfraTrust (OIT, rated [ICRA]AAA/Stable, an Infrastructure Investment Trust or InvIT floated by OSEPL). OSEPL, along with OTPL, holds 60% stake in OIT. Since its creation, OIT has been making regular distribution to its unitholders. In FY2021, the Oriental Group received Rs. 290.0-crore distribution (net of TDS) from OIT. The distribution from OIT is expected to remain healthy and stable, supported by regulatory stipulation of at least 90% of the net distributable cash flows to be distributed to unit holders of InvIT. Further, OIT has right of first refusal for the Group's build-operate-transfer (BOT) portfolio, which provides a platform for the Group for monetisation of its operational assets. The Oriental Group has three projects, which will be eligible for sale to InvIT over the next one year. The Group already has a binding offer from OIT for one of its toll road projects - Biaora to Dewas Highway Private Limited and sizeable proceeds are likely to be received from the same. The rating is supported by OSEPL's healthy scale of operations, healthy operating margins of over 17% during the last five fiscals and low leverage with TOL/TNW of 0.5 as on March 31, 2021. Going forward, the revenues are anticipated to decline in the current financial year considering its moderate opening order book position in FY2022. Nonetheless, the expected build-up of order book in the near term is likely to support its revenue growth. Besides, given the healthy accretion to reserves supported by distribution income from OIT, and absence of any major debt-raising plans, its capital structure is likely to remain comfortable. The rating derives comfort from the company's strong clientele – National Highways Authority of India (NHAI), rated [ICRA]AAA (Stable), which results in low counterparty credit risk. This apart, the rating positively factors in the extensive experience of the company's promoters in the construction sector.

The rating is, however, constrained by the moderate order book position of around Rs. 4,000 crore as of December 2021, including a recently awarded hybrid annuity mode (HAM) project. The order book/operating income (OB/OI) ratio including the recent project is estimated at ~2.0 times (of FY2021's OI), which provides limited revenue visibility. The rating factors in the heightened competition in the road sector for both the engineering, procurement, and construction (EPC) and HAM projects, which make it difficult to secure new orders while sustaining profitability. The rating is constrained by the execution risk associated with construction contracts, as ~90% of the pending order book is in the early stages of execution (less than 20% progress), along with its exposure to under-implementation HAM projects, which will require sizeable investments of ~Rs. 540 crore over the next three years. However, the cash flows to be generated from the Group's core construction business, and the distribution income from OIT are expected to be sufficient to meet this requirement. Besides, the order book is also highly concentrated in terms of clientele, with its entire pending order book concentrated with orders from the NHAI (indirectly as contracts are awarded by special purpose vehicles (SPVs) developing HAM projects). The rating also considers the exposure of the Group's profit margins to raw material price fluctuations, given that the pending orders are fixed-price in nature. In September 2020, OSEPL was disallowed by NHAI to participate in any NHAI bids post an accident involving collapse of an under-construction elevated structure in one of its project sites. However, subsequently in January 2021, the debarment was revoked by NHAI after investigation of the incident and a financial penalty of Rs. 3.0 crore was imposed. Although the NHAI is a strong counterparty, high reliance on NHAI for its orders could impact order inflow as witnessed in the past.

OSEPL has extended corporate guarantee (CG) for partial debt of Rs. 350 crore for one operational toll road project. In the case of its HAM projects, it has extended CG for shortfall in termination payment for two of its HAM SPVs and for Binjhabahal to Telebani Section Highways Private Limited CG has been provided for Rs. 40.0-crore of term loan. For arriving at the rating, ICRA has done limited consolidation of OSEPL with the HAM project subsidiaries (HAM SPVs), factoring in the equity commitments and support towards meeting any cash flow mismatches. The rating also notes 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 its execution track record and absence of any bank guarantee invocations in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that OSEPL will continue to benefit from steady distribution from OIT and exceptional financial flexibility, its favourable operational track record in the road construction segment, adequate order book, healthy profitability and reputed clientele.

Key rating drivers and their description

Credit strengths

Healthy scale of operations and comfortable leverage and coverage metrics – The Oriental Group has a healthy scale of operations and is one of the larger players in the road sector in India. Its revenues have been in the range of ~Rs. 1,600 crore to Rs. 2,700 crore during the last five fiscals through FY2021. Its operating margin has remained robust in the past, upwards of 17% over the last two fiscals through FY2021. The Group's financial profile is characterised by a conservative capital structure, healthy coverage indicators and adequate liquidity position. Its TOL/TNW (total outside liabilities/tangible net-worth) stood at 0.5 times as on March 31, 2021, aided by its limited reliance on external borrowings, coupled with its comfortable net worth position of Rs. 4,592 crore as on March 31, 2021. The Group's coverage indicators remained healthy, as evident from interest coverage, DSCR and total debt/OPBIDTA of 4.8 times, 1.4 times and 1.4 times, respectively, in FY2021 and the same are supported by its healthy operating profit margins. Going forward, although the Group has plans for inorganic growth through acquisition of operational road projects, it does not expect the same to impact its leverage, as the aforesaid acquisitions will be funded entirely through the surplus funds. The Group is in the advanced stage of monetising some of its operational assets, which will provide sizeable inflow and improve its leverage.

Exceptional financial flexibility – The Oriental Group benefits from the steady income stream and financial flexibility arising from its sizeable investments in InvIT – OIT. OSEPL, along with OTPL, holds 60% stake in OIT. This is further supported by regulatory stipulation of at least 90% of net distributable cash flows to be distributed to unit holders of InvIT. OIT provides a platform for OSEPL for further monetisation of operational assets. OIT has a healthy operational profile with five stable operational road projects (four toll-based projects with an average toll collection track record of eight years; one annuity-based project with a track record of timely receipt of 13 full semi-annual annuities), all under Concession Agreement with the NHAI.

Long track record in construction business – OSEPL, the flagship entity of the Oriental Group, has an extensive experience of over five decades in the road construction segment and has been executing road projects since 1971. The company has been involved in construction of roads (both rigid and flexible pavements), airfields, bridges, and flyovers, among others. It has executed over 8,000 kms of national/state highways, across various locations of the country.

Credit challenges

Moderate order book with concentration and execution risks – OSEPL had a pending order book of Rs. 4,000 crore as of December 2021. The OB/OI ratio including the recent project is estimated at ~2.0 times (of FY2021's OI), which provides limited revenue visibility. Nonetheless, the anticipated receipt of a few more HAM projects in Q4 FY2022 is likely to support its order book build-up in the near term. OSEPL faces revenue concentration risks in terms of sector and customer, with majority of its revenues being derived from the NHAI's road projects. OSEPL was disallowed by the NHAI in September 2020 post an accident involving collapse of an under-construction elevated structure in one of its project sites. In January 2021, the disallowance was withdrawn. The high reliance on NHAI for its orders could impact order inflow as witnessed in the past. Besides, the Oriental Group is exposed to the execution risks associated with construction contracts. As per its pending order book position as on December 31, 2021, nearly ~90% of the of the same is in the early stages of execution (less than 20% progress). Any slowdown in execution of the orders is expected to impact the Group's scale of operations and profitability going forward.

Equity commitments towards HAM projects – The Oriental Group has under-implementation HAM projects, which will require sizeable investments of ~Rs. 540 crore over the next three years. Further, its equity commitment is likely to increase given the Group's plans to take up new HAM projects. However, the cash flows to be generated from the Group's core construction business, along with income from InvIT are expected to be sufficient to meet this requirement.

Intense competition and sizeable non-fund based exposure – OSEPL procures orders through competitive bidding. With multiple players in the road construction segment, the company faces stiff competition. However, the company is relatively better placed to secure new orders with healthy financial flexibility and ability to bid for large projects with an order value of ~Rs. 1,500 crore – Rs. 2,000 crore, which are expected to have relatively lower competition. OSEPL is exposed to sizeable contingent liabilities in the form of bank guarantees (Rs. 363.3 crore as on December 31, 2021), largely towards performance guarantee and retention money. Nonetheless, ICRA draws comfort from its healthy execution track record and no crystallisation of guarantees in the past.

Liquidity position: Adequate

The Oriental Group's liquidity remains adequate as characterised by comfortable buffer available in its working capital facilities and moderate cash balances maintained. OSEPL had free cash balance and liquid investments of ~Rs. 43.29 crore as on September 30, 2021, at a standalone level. The annual repayment obligations on its term loans ranges within Rs. 85.0 crore – Rs. 100.0 crore/year for the next three years and the cash flows from its operations are likely to remain adequate for meeting the aforesaid obligations. The Oriental Group has under-implementation HAM projects and the same require sizeable investments of ~Rs. 540 crore during the next three years. The cash flows to be generated from the Group's core construction business, along with income from InvIT are expected to be sufficient to meet this requirement.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in the company's order book position and OI, along with improvement in profitability margins, order book diversification and liquidity position.

Negative factors – Negative pressure on the rating could arise if there is slower-than-expected new order inflows or significant delays in project execution, leading to decline in its scale, operating profitability, or deterioration in its liquidity position. The rating could also come under pressure if there is considerable increase in exposure to developmental projects and its equity/funding commitments towards these projects, which results in increased borrowing. The rating may face pressure if the ratio of the Group's debt to distribution received from OIT (InvIT) increases to more than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Consolidation Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financial of OSEPL, along with its 100% subsidiary – OTPL and the limited consolidation of six of its subsidiaries/SPVs – of which one is a SPV set up for toll road project and the rest five are set up for undertaking HAM road projects (refer Annexure-2). For limited consolidation, ICRA has considered financial support that is anticipated to be extended by OSEPL in the form of equity infusion/unsecured loans to meet the project cost and cash flow mismatches, if any, in these subsidiaries.

About the company

The Oriental Group, promoted by the Bakshi family of New Delhi, commenced operations in 1970. It has an experience of over five decades in the construction industry with main expertise in roads and highways segment. The company has executed several major infrastructure projects in the past and has a long track record of completing infrastructure projects including road BOT projects developed under SPVs.

OSEPL is the flagship company of the Oriental Group, primarily involved in infrastructure construction activities pertaining to the roads sector. OSEPL is an EPC company with expertise in construction of rigid and flexible pavements for roads/highways and airfields, including bridges, flyovers, embankment with reinforced earth and earthwork. It has also undertaken projects in mining and quarrying operations in the past.

OSEPL, along with its wholly-owned subsidiary - OTPL, developed multiple road projects under BOT model in SPVs. In FY2020, it floated an InvIT – Oriental InfraTrust in which five operational assets were transferred. OSEPL and OTPL together hold ~60% units of OIT. This apart, OSEPL and OTPL currently have a portfolio of eight road projects under various SPVs (four BOT-Toll and four HAM). All the four BOT (toll) road projects are operational. Three of these operational toll road projects (Oriental Pathways Nagpur Pvt Ltd, Oriental Pathways Agra Pvt Ltd, and PATH Oriental Highways Ltd) are in 50:50 joint-venture with the Bhopal-based PATH Group, and do not have any external debt. Out of the HAM projects, one project (Binjhabahal to Telebani Section Highways Private Limited) is operational, while another HAM project (Kallagam-Meensurutti Highway Pvt Ltd) had recently achieved provisional completion for 73% of the work. The balance two HAM projects (Rajiv Chowk-Sohna Highway Pvt Ltd, and Poondiankuppam-Sattanathapuram Section Private Limited) are under various stages of execution. Besides, the company has recently received letter of award for one more HAM project in December 2021 (proposed to be developed under a new SPV - Edapally to Kodungallur Highway Pvt Ltd).

Key financial indicators

Consolidated – OSEPL and OTPL *	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	2353.8	2061.4
PAT (Rs. crore)	346.1	245.1
OPBDIT/OI (%)	17.9%	17.6%
PAT/OI (%)	14.7%	11.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	1.7	1.4
Interest Coverage (times)	3.1	4.0

**ICRA has consolidated financials of OSEPL and OTPL for its analysis*

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

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as on September 31, 2021 (Rs. crore)</th><th>Date & Rating on</th><th>FY2021</th><th>FY2020</th><th>FY2019</th></tr>
<tr><th>February 11, 2022</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Fund-based facility – Term Loan</td><td>Long term</td><td>125.0</td><td>125.0</td><td>[ICRA]AA- (Stable)</td><td>-</td><td>-</td><td>-</td></tr>
</table>

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facility – Term Loan	Simple

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, is available on ICRA's 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	Fund-based facility – Term Loan	July 2021	-	FY2027	125.00	[ICRA]AA- (Stable)

Source: *OSEPL*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	OSEPL & OTPL's Ownership*	Consolidation Approach
Oriental Tollways Private Limited (OTPL)	100%	Full Consolidation
Biaora to Dewas Highway Private Limited	100%	Limited consolidation
Binjhabahal to Telebani Section Highways Private Limited	100%	Limited consolidation
Kallagam-Meensurutti Highway Pvt Ltd	100%	Limited consolidation
Rajiv Chowk-Sohna Highway Pvt Ltd	100%	Limited consolidation
Poondiankuppam-Sattanathapuram Section Private Limited	100%	Limited consolidation
Edapally To Kodungallur Highway Pvt Ltd	100%	Limited consolidation

**The shareholding of various SPVs is divided between OSEPL and OTPL*

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About ICRA Limited:

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