April 05, 2024

Onshore Construction Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Non-fund Based	200.00	200.00	[ICRA]A2+; reaffirmed
Short-term – Unallocated limits	20.00	20.00	[ICRA]A2+; reaffirmed
Long-term/Short-term Interchangeable^	(25.00)	(25.00)	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**220.00**	**220.00**	

**Instrument details are provided in Annexure-I*

^Long-term / Short-term –Interchangeable is a sublimit of Non-fund Based Limit

Rationale

The reaffirmation of ratings favourably factors in Onshore Construction Company Private Limited's (OCCPL) comfortable financial profile marked by low leverage (TOL/TNW at 0.6 times as on March 31, 2023) and working capital intensity, with an adequate liquidity cushion. The ratings continue to draw comfort from the extensive experience of OCCPL's promoters, their execution capabilities in the piping and tankage construction industry and the company's reputed clientele. For FY2023, the company reported a revenue of Rs. 360 crore [year-on-year (YoY) dip of 3%] and an operating margin of 11.2%. While the company's revenue is expected to improve to ~Rs. 400 crore in FY2024e, its operating margins have moderated slightly in 9M FY2024 to ~9.8% due to cost overruns in an old project, which was completed in FY2024.

Most of the new contracts have in-built price escalation clauses, as compared to the earlier fixed-price contracts of the company. In case of delays leading to cost overruns, the built-in price escalation clause in the recent contracts protects the company's operating margin from raw material price fluctuation risks to some extent. Going forward, the company's ability to scale up operations and improve profitability remains important from the credit perspective.

The ratings note the healthy order inflows of ~Rs. 321 crore in FY2024, which led to an unexecuted order book of ~Rs. 541 crore as on December 31, 2023. The OB/OI ratio remains satisfactory at 1.7 times of the standalone operating income (domestic operations) of FY2023, providing near-term revenue visibility, as most of these orders are expected to be executed within 12-18 months. The timely execution of orders and a ramp-up of the order book position will be critical in sustaining the revenue growth going forward.

The ratings are, however, constrained by OCCPL's modest scale of operations and high order book concentration. ICRA notes that the company's construction revenue has remained flattish over the last five years, with a tepid CAGR of ~2.8% during the FY2018-FY2023 period. While it has a pan-India presence and operations in a few foreign countries, namely Nigeria and Jordan[1], a large portion of the order book is concentrated in Gujarat and Jharkhand. Moreover, out of the unexecuted order book, the smelter/refinery and steel plant segments accounted for ~62% and the air separation segment constituted ~21%. The top-five orders made up 83% of the unexecuted order book and the top three clients contributed 83% to the unexecuted order book as on December 31, 2023, reflecting the high concentration risk.

ICRA notes that the company manages its overseas operations through various subsidiaries/associates, wherein it is executing a large order. However, the management has guided that there would not be any direct or indirect financial support from its Indian operations to execute the overseas orders. Any incremental support from OCCPL to its subsidiaries, which could have a material impact on its own liquidity position will be a credit negative. ICRA notes the stiff competition in the construction

[1] Operations in Nigeria and Jordan are handled through Indian operations, and its revenue is also booked in standalone books

sector and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and mobilisation advances. Nonetheless, ICRA draws comfort from OCCPL's execution track record, the relatively strong credit profile of most of its counterparties and the absence of invocation of guarantees, as witnessed 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 healthy cash accruals.

Key rating drivers and their description

Credit strengths

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. OCCPL has completed over 250 projects and has strong execution capabilities, which is evident from the repeat business secured from its customers. Its clientele includes large and reputed players in a diverse range of industries, including smelters, refineries, oil and gas, fertilisers and chemicals.

Comfortable leverage and debt coverage metrics – The company reported a comfortable capital structure, with TOL/TNW of 0.6 times as on March 31, 2023, due to 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 coverage metrics remained comfortable with interest cover of 11.7 times in FY2023, on account of healthy operating profit margins. In the absence of any major capex/investment plans, the coverage indicators are expected to remain robust in the medium term.

Credit challenges

Modest scale of operations – The company's scale of operations remains moderate, with a FY2023 revenue of Rs. 360.0 crore (YoY dip of 3%) and FY2024e operating income likely to reach ~Rs. 400 crore. ICRA notes that the company's construction revenue has remained flattish over the last five years, with a tepid CAGR of ~2.8% during the FY2018-2023 period. Given the stiff competition in the industry, its ability to regularly secure orders and improve its scale of operations while sustaining profitability remains a key monitorable.

Order book concentration in certain projects and geography; exposed to execution risk as sizeable projects are in nascent stages of execution – The company has a pan-India presence, with operations in a few foreign countries, namely Nigeria and Jordan. However, Gujarat and Jharkhand contributed 72% to the unexecuted order book as on December 31, 2023, resulting in high geographical concentration risk. Further, segment, project and client concentration risks (albeit with reputed clientele) remain high. The top five orders accounted for 83% of the unexecuted order book and the top three clients contributed 83% to the unexecuted order book as on December 31, 2023.

The company is exposed to moderate execution risk as 56% of the order book as on December 31, 2023, remained in the nascent execution stages (less than 25% executed). ICRA notes that the requisite approvals are in place for all the major orders, mitigating the execution risk to an extent. Going forward, the timely completion of large orders that are in nascent stages and maintaining a healthy working capital intensity would be key monitorable.

OCCPL is exposed to the inherent cyclicality in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in revenues and pressure on margins. It is vulnerable to sizeable contingent liabilities in the form of bank guarantees (~Rs. 156 crore as on March 26, 2024), mainly towards performance guarantees and mobilisation advances. 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 an adequate cushion in its liquidity as on March 26, 2024, with free cash and bank balance of ~Rs. 14 crore and undrawn fund-based lines of Rs. 25 crore. It also has an overdraft (OD) against fixed deposit (FD) facility of Rs. 75 crore, of which ~Rs. 46 crore has been utilised as on date. OCCPL does not have any fixed repayment obligations for FY2025 and FY2026.

Rating sensitivities

Positive factors – The ratings might be upgraded if the company is able to significantly increase its scale of operations and improve its business diversification, while maintaining its profitability levels, low leverage and coverage metrics.

Negative factors – Negative pressure on the ratings may arise if lower-than-anticipated billing or sustained pressure on operating profitability results in weak coverage metrics. The ratings could also come under pressure if an elongation in the working capital cycle and/or support to other group entities weakens the company's liquidity cushion. Credit metrics that could lead to a downgrade include the interest coverage decreasing to less than 5 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

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 several industries such as petrochemicals, fertilisers, paints, refineries, vegetable oils, food processing and pharmaceuticals. Its scope of work encompasses 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. It 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). It is also into the trading (majorly exports) of engineering goods such as cranes, safety gloves and others.

OCCPL has shifted its erstwhile trading activities (primarily exports of engineering goods such as cranes, safety gloves, etc) to an associate company, Onshore Infrastructure Projects Development Private Limited. Therefore, the trading income which formed an average of ~22% during FY2018-FY2022 does not form a part of the revenue for FY2023 and FY2024.

Key financial indicators (audited)

OCCPL – Standalone	FY2022	FY2023
Operating income (Rs. crore)	373.0	360.0
PAT (Rs. crore)	22.4	25.8
OPBDIT/OI (%)	11.2%	11.2%
PAT/OI (%)	6.0%	7.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	1.2	0.5
Interest coverage (times)	6.7	11.7

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 05, 2024	Mar 17, 2023	Dec 31, 2021	Oct 23, 2020
1	**Non-fund Based Limits**	Short term	200.0	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**
2	**Short-term Unallocated limit**	Short term	20.0	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**
3	**Long-term/Short-term Interchangeable ^**	Long term/short term	(25.0)	-	**[ICRA]A-(Stable)/[ICRA]A2+**	**[ICRA]A-(Stable)/[ICRA]A2+**	**[ICRA]A-(Stable)/[ICRA]A2+**	**[ICRA]A-(Stable)/[ICRA]A2+**

^Long-term / Short-term –Interchangeable is a sublimit of Non-fund Based Limit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term - Non-fund Based	Very simple
Long-term/Short-term Interchangeable^	Very simple
Short-term – Unallocated limits	Not applicable

^Long-term / Short-term –Interchangeable is a sublimit of Non-fund Based Limit

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	Non-fund Based Limits (BG/LC)	NA	NA	NA	200.0	[ICRA]A2+
NA	Short-term Unallocated limits	NA	NA	NA	20.0	[ICRA]A2+
NA	Long-term/Short-term Interchangeable^	NA	NA	NA	(25.0)	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

^Long-term / Short-term –Interchangeable is a sublimit of Non-fund Based Limit

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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About ICRA Limited:

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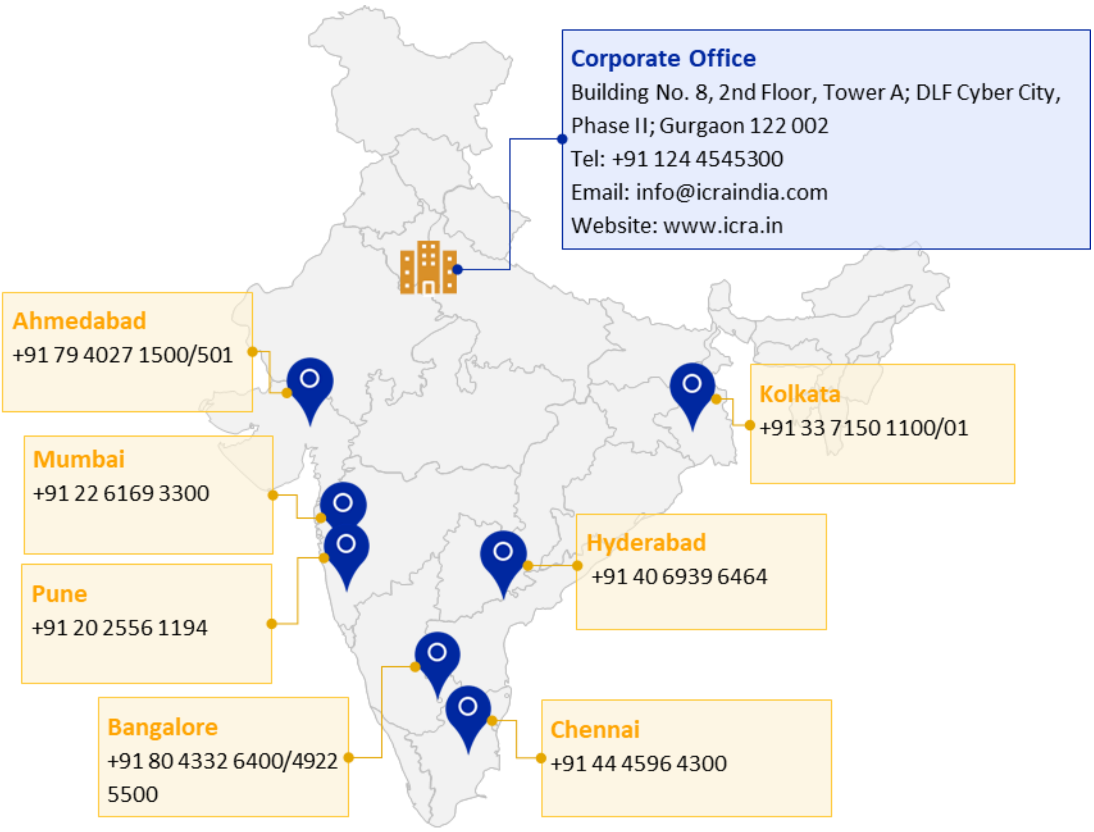

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