

October 22, 2024

## Coastal Marine Construction and Engineering Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*                          | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action  |
|--------------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term – Fund-based – Term loan   | 100.00                               | 100.00                              | [ICRA]A+ (Stable); reaffirmed                          |
| Long-term – Fund based – Cash credit | 50.00                                | 50.00                               | [ICRA]A+ (Stable); reaffirmed                          |
| Short-term – Non-fund based limits   | 695.00                               | 850.00                              | [ICRA]A1+; reaffirmed and assigned for enhanced amount |
| <b>Total</b>                         | <b>845.00</b>                        | <b>1000.00</b>                      |  |

\*Instrument details are provided in Annexure-I

### Rationale

The rating action reflects Coastal Marine Construction and Engineering Limited's (COMACOE) healthy financial profile, characterised by low leverage, strong liquidity (unencumbered cash balances and investments<sup>1</sup> of ~Rs. 595.0 crore as on August 31, 2024) and comfortable coverage indicators with interest cover of ~14 times as on March 31, 2024, which is expected to remain healthy going forward. While the operating margins improved substantially to 36.0% in FY2024 (FY2023 - 25.5%), primarily driven by one-time recovery of standby charges from an old project, these are likely to remain comfortable at around FY2023 levels going forward, given the in-house survey team and consultants for carrying out pre-construction design works. The company had a pending order book (OB) of ~Rs. 1,283 crore as on June 30, 2024. It has won new orders worth ~Rs. 388 crore in July 2024. The OB/operating income (OI) ratio remained healthy at 2.8 times based on FY2024 (provisional) financials, thereby offering adequate revenue visibility. The ratings favourably 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, along with its execution track record in marine construction projects.

The ratings, however, are constrained by the company's modest, albeit improved, scale of operations and high project concentration risk with top three orders contributing to ~90% of the unexecuted order book as on June 30, 2024. Given the specialised nature of services offered by COMACOE, the scale of operations remains modest and segment concentration remains high with the marine infrastructure sector contributing to 88% of the order book as on June 30, 2024. With a likely increase in scale of operations over the medium term, the company's ability to judiciously manage its working capital cycle remains crucial from the credit perspective. About ~84% of the outstanding order book is in the nascent stages with less than 10% completion as on June 30, 2024, thereby exposing it to execution risks. Its single largest order from Bangladesh, which accounts for ~69% of the outstanding order book, was initially delayed owing to availability of banking lines and has in recent times been impacted by the ongoing challenges in the region. ICRA understands from the management that that resources for resumption of work have been mobilised and work is expected to pick up from this month onwards. Overall, the non-fund based exposure for the aforesaid Bangladesh project remains sizeable, and any adverse development on the same could have a bearing on the company's credit profile and remains a key monitorable. Over the next 12-18 months, sizeable share of revenue is likely to be derived from this project and hence timely ramp-up in project execution as well as timely realisation of funds from the end counterparty remains crucial from the credit perspective. Going forward, COMACOE plans to expand its overseas operations, which will likely entail a capex of ~Rs. 90-100 crore over FY2025-FY2026. Nevertheless, COMACOE is expected to remain net cash surplus with liquidity more than Rs. 450 crore likely to be maintained over the medium term.

<sup>1</sup> Investments in financial instruments, FDs, mutual funds, and exclude investments in subsidiaries/associates

Considering the increasing scale of operations, COMACOE's ability to enhance its working capital lines, especially non-fund based limits remains crucial to bid for new orders. The ratings are constrained by the absence of price variation clause in most of its contracts, which exposes its operating margin to the cost escalation risk. Moreover, given the complexity of the projects, timely completion of the project within time and stipulated cost remains crucial to sustain margins.

The Stable outlook on the ratings reflects ICRA's opinion that COMACOE will continue to benefit from its long track record of operations, healthy financial profile, characterised by low leverage and strong coverage indicators, along with strong liquidity.

## Key rating drivers and their description

### Credit strengths

**Healthy financial risk profile; strong liquidity** – The company reported a healthy financial profile, characterised by low leverage with TOL/TNW of 0.4 times as on March 31, 2024 and strong coverage indicators with interest cover and debt service coverage ratio (DSCR) of 13.9 times and 8.8 times, respectively, in FY2024. While the operating margins improved substantially to 36.0% in FY2024 (FY2023 - 25.5%), primarily driven by one-time recovery of standby charges from an old project, these are expected to remain comfortable at around FY2023 levels going forward, given the in-house survey team and consultants for carrying out pre-construction design works.

COMACOE has a healthy liquidity position with significant unencumbered cash balances and investments of ~Rs. 595.0 crore as on August 31, 2024 with majority of these investments parked in debt mutual funds. In absence of any major capex/investment plans, ICRA expects company to maintain strong liquidity position going forward.

**Extensive experience and established position in geotechnical investigation, survey work in oil and gas sector industry and strong execution track record in marine construction segment** – The management has extensive experience of ~28 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, along with the marine (pipeline construction) industry.

### Credit challenges

**Modest scale of operations; concentrated order book position** – Given the specialised nature of services offered by COMACOE with major focus on a sole segment, its scale remains modest compared to other peers at similar rating level. Moreover, due to year-end revenue booking, receivable and creditor days remain high. ICRA notes that more than 50% of FY2024 revenue was booked in that last quarter of the fiscal. The company's ability to judiciously manage its working capital cycle remains crucial from a credit perspective, with an expected increase in scale of operations over the medium term.

Notwithstanding the company's strong presence in geotechnical services, marine construction works and marine terminal management, the segment concentration remains high with the marine segment constituting the majority of pending order book as on June 30, 2024. COMACOE is exposed to high project concentration with top three orders contributing to ~90% of the unexecuted order book as on June 30, 2024. About ~84% of the outstanding order book is in the nascent stages with less than 10% completion as on June 30, 2024, thereby exposing it to execution risks. Its single largest order from Bangladesh, which accounts for ~69% of the outstanding order book, was initially delayed owing to availability of banking lines and has in the recent times been impacted by the ongoing political turmoil in the region. ICRA understands from the management that resources for resumption of work have been mobilised and work is expected to pick up from this month onwards. Over the next 12-18 months, sizeable share of revenue is likely to be derived from this project and hence timely ramp-up in project execution as well as timely realisation of funds from the end counterparty remains crucial from the credit perspective.

**Absence of price variation clause in majority of its contracts exposes operating profitability to input cost pressure** – COMACOE does not have a price variation clause in its contracts, thus exposing its operating margin to cost escalation risk. However, the company expects the margins to remain stable going forward, given the operating leverage benefits and mix of newly commissioned projects, wherein the recent commodity prices are already factored.

## Liquidity position: Strong

COMACOE's liquidity is **strong**, supported by ~Rs. 595.0 crore of cash and liquid investments, primarily deployed in short-term debt or liquid mutual funds, including unencumbered cash balance of Rs. 160.0 crore. The company has Rs. 90-100 crore of capex plans in FY2025-FY2026 and has debt repayment obligations of ~Rs. 14.2 crore in the next 24 months, which can be comfortably met through the operational cash flows and available cash balance. The average utilisation of fund-based facilities over the last 15 months ending July 2024 is 23%, which provides ample cushion.

## Rating sensitivities

**Positive factors** – ICRA could upgrade COMACOE's ratings if the company scales up significantly and materially diversifies its business presence, while maintaining low leverage and strong liquidity on a sustained basis.

**Negative factors** – Negative pressure on COMACOE's ratings could arise if there is a material decline in earnings, sizeable debt-funded capex/inorganic expansion and/or further stretch in receivable position leading to significant weakening of the liquidity. Further, any adverse development in the Bangladesh project, which materially impacts liquidity position will be a credit negative.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology – Construction</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Standalone   |

## About the company

Incorporated in 1995, COMACOE provides pre-engineering and pre-construction geotechnical investigation services to the oil and gas sector and other marine construction projects and in engineering, procurement and construction work for marine projects. Initially, COMACOE focused on marine surveys and geotechnical soil investigations. In 2009, the company entered marine construction projects such as construction of sea water intake and outfall system as well as operations and maintenance (O&M) projects for single point mooring buoy, submarine pipeline systems, etc. Since then, it 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. It operates in three sub-segments of marine: geosciences (hydrographic/oceanographic/site surveys, foundation engineering, etc), O&M of port and terminals and marine infrastructure (sea water intake and civil construction).

### Key financial indicators (audited)

| COMACOE – Standalone                                 | FY2022 | FY2023 | FY2024* |
|--|--------|--------|---------|
| Operating income (Rs. crore)                         | 279.7  | 359.7  | 467.4   |
| PAT (Rs. crore)                                      | 41.8   | 70.2   | 159.2   |
| OPBDIT/OI (%)  | 26.01% | 25.51% | 35.97%  |
| PAT/OI (%)   | 14.94% | 19.51% | 34.07%  |
| Total outside liabilities/Tangible net worth (times) | 0.33   | 0.38   | 0.42    |
| Total debt/OPBDIT (times)                            | 0.58   | 0.49   | 0.38    |
| Interest coverage (times)                            | 16.16  | 11.48  | 13.91   |

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

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

| Instruments              | Current (FY2025) |                          |                   |                    | Chronology of rating history for the past 3 years |                   |              |                   |                |                   |
|--------------------------|------------------|--------------------------|-------------------|--------------------|---|-------------------|--------------|-------------------|----------------|-------------------|
|                          | Type             | Amount Rated (Rs. crore) | October 22, 2024  | September 25, 2024 | FY2024  |                   | FY2023       |                   | FY2022         |                   |
|                          |                  |                          |                   |                    | Date  | Rating            | Date         | Rating            | Date           | Rating            |
| Fund-based – Term loan   | Long Term        | 100.00                   | [ICRA]A+ (Stable) | [ICRA]A+ (Stable)  | June 23, 2023                                     | [ICRA]A+ (Stable) | May 20, 2022 | [ICRA]A+ (Stable) | April 19, 2021 | [ICRA]A+ (Stable) |
| Fund-based – Cash credit | Long Term        | 50.00                    | [ICRA]A+ (Stable) | [ICRA]A+ (Stable)  | June 23, 2023                                     | [ICRA]A+ (Stable) | May 20, 2022 | [ICRA]A+ (Stable) | April 19, 2021 | [ICRA]A+ (Stable) |
| Non-fund based limits    | Short Term       | 850.00                   | [ICRA]A1+         | [ICRA]A1+          | June 23, 2023                                     | [ICRA]A1+         | May 20, 2022 | [ICRA]A1+         | April 19, 2021 | [ICRA]A1+         |

### Complexity level of the rated instruments

| Instrument                           | Complexity Indicator |
|--------------------------------------|----------------------|
| Long-term – Fund-based – Term loan   | Simple               |
| Long-term – Fund-based – Cash credit | Simple               |
| Short-term – Non-fund based limits   | Very 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 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   | Fund-based – Term loan   | FY2018           | NA          | FY2029   | 100.00                   | [ICRA]A+ (Stable)          |
| NA   | Fund-based – Cash credit | NA               | NA          | NA       | 50.00                    | [ICRA]A+ (Stable)          |
| NA   | Non-fund based limits    | NA               | NA          | NA       | 850.00                   | [ICRA]A1+                  |

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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