

March 24, 2023

IRM Offshore and Marine Engineers Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Others	15.00	[ICRA]BBB+(Stable); assigned
Short-term – Non-fund based limits – Others	9.95	[ICRA]A2; assigned
Long-term/Short-term – Fund based/Non-fund based limits – Others	33.00	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Long-term/Short-term – Unallocated limits	17.05	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Total	75.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned factor in the established track record of IRM Offshore and Marine Engineers Private Limited (IRM or the company) in supplying sophisticated rubber products for marine applications, backed by an experienced and qualified management, established pre-qualifications and empanelment with major oil companies, port authorities and engineering, procurement and construction (EPC) contractors. The ratings also factor in the moderate competitive intensity in the domestic market and the company's expansion across new geographies, helping drive growth and diversification. ICRA also notes that the products supplied by IRM form less than 1% of the overall project cost of its customers, while its superior product quality ensures that it gets repeat orders from its customers.

ICRA notes the implementation of a scheme of arrangement, wherein the manufacturing operations along with the bank facilities of erstwhile IRM Offshore and Marine Engineers Private Limited was transferred to another entity – SAS Offshore and Marine Engineers Private Limited - which has been subsequently renamed as IRM Offshore and Marine Engineers Private Limited (rated entity). Erstwhile IRM Offshore and Marine Engineers Private Limited was renamed as IRM Infraprojects Private Limited, which houses the real estate projects of the Group. The company received the NCLT approval in January 2021 and the reorganisation was effective from August 2020.

The ratings factor in the healthy outstanding order book position of ~Rs. 209 crore as on January 31, 2023, providing revenue visibility over the near term. Further, the ratings consider the company's comfortable financial risk profile characterised by comfortable capital structure and satisfactory coverage metrics.

The ratings, however, are constrained by IRM's relatively modest operations compared to the large foreign players and the vulnerability of its profitability to any significant raw material price variations during the execution of orders (due to the fixed price nature of its contracts). ICRA notes that the company's revenue realisation remains exposed to project execution risks. The company's margins also remain exposed to foreign exchange risk.

The Stable outlook reflects ICRA's expectations that IRM will continue to benefit from its experienced management team and its empanelment with reputed customers, which will also support its credit profile.

Key rating drivers and their description

Credit strengths

Experienced promoters and established pre-qualification and empanelment with major ports, oil companies and EPC contractors - IRM is currently managed by its second-generation promoters, Mr. Nishith Soni, Mr. Swapnil Soni and Ms. Trupti Soni. The promoters have over five decades of experience in industrial rubber and marine and offshore product businesses.

They are supported by a team of over 130 personnel spread across various functions, including engineering, designing, marketing, finance and administration. IRM benefits from its established operational track record, which includes several contracts executed for Indian port authorities. Over the years, IRM has received several technical certifications that support its technical bids. In addition, IRM is an approved supplier for various oil companies (who possess offshore platforms) and EPC contractors (who build offshore platforms). Further, the high technical requirements in fender and offshore platform businesses ensure overall high entry barriers to the segments; although, the company faces competition from overseas players in the export market.

Diversified presence across segments; cater to reputed customers - The company is present across all rubber-engineered items required in marine applications. The share of marine and boat fenders to the total revenue stood at 65% in FY2022 against 52% in FY2021. Additionally, IRM manufactures and sells pneumatic fenders, offshore platforms and dock accessories. IRM's orders are well distributed among reputed export customers consisting of port authorities, EPC players operating in the oil and gas sector, as well as oil and gas sector companies. In the last two to three years, the company executed major orders for reputed clients from domestic and international markets. The contribution of its top 10 customers to the total revenue remained at 65-70% in FY2022 and 9M FY2023.

Stable profitability and healthy coverage metrics - While the operating margins remained in the range of 8-10% in the past (under the erstwhile entity), it dropped to 6.1% in FY2022, remaining flat compared to FY2021. It further improved to 7.6% in H1 FY2023; however, the operating margins are below the historic levels due to unprecedented increase in raw material prices as the company has fixed-price contracts with most of the customers. As on March 31, 2022, the gearing stood at 0.4 times compared with 0.2 times as on March 31, 2021 due to the increase in borrowings. Further, the company's coverage metrics have improved in FY2022 with the interest coverage increasing to 6.8 times from 4.3 times in FY2021. However, the total debt/OPBITDA increased to 2.3 times as on March 31, 2022, compared with 1.0 times as on March 31, 2021, on account of increase in working capital borrowings. During H1 FY2023, the interest coverage and total debt/OPBITDA stood at 8.6 times and 1.0 times, respectively.

Credit challenges

Modest scale of operations - IRM's products form less than 1% of the total project investment cost. However, their applications remain critical for project safety and as a result, customers generally do not compromise on quality. Given the comparatively small market size of its products, both in India and abroad, the company's overall scale of operations remains modest. IRM's operating income remained modest at Rs. 100.7 crore in FY2022, remaining flat compared to FY2021. In H1 FY2023, the revenue grew to ~Rs. 70 crore.

Raw material price fluctuation risk; currency-related risk on exports - The company places orders for raw materials immediately on securing sales orders. However, in case of any delay in execution due to constraints on the part of clients, the company is not able to pass on the increase in raw material prices to its customers due to the fixed-price contracts. The risk is mitigated to some extent by its policy of taking advances from its customers at the time of order acceptance. Nonetheless, in case of any higher-than-planned procurement, the margins remain exposed to adverse fluctuations in steel and rubber prices. Moreover, IRM does not have a natural hedge of foreign currency as it procures primarily from domestic suppliers. Thus, the company's margins remain exposed to forex risks to the extent of its unhedged currencies.

Project execution risk associated with ongoing customer projects - IRM has significant exposure to the project execution risk of its customers, as its projects can be affected by delays on behalf of clients as well as due to unforeseen circumstances. As some projects extend up to a year, such delays may lead to delayed revenue realisation as well as blocking of working capital through any advance inventory procurement.

Liquidity position: Adequate

IRM's liquidity position remains adequate with annual fund flow from operations of Rs. 3.8 crore in FY2022 and free cash and liquid investment of ~Rs. 2 crore as on March 31, 2022. The company also had a sanctioned fund-based working capital facility

of Rs. 25.0 crore, the average utilisation of which remained low at around ~38% over the past 12 months and also a non-fund based facility of ~Rs. 33 crore, the average utilisation of which remained ~64% over the past 12 months. There are no major capex plans apart from regular maintenance capex. Further, the company does not have any term loans and hence, does not have repayment obligations.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company demonstrates a significant increase in its scale of operations and profit margins on sustained basis while maintaining its credit profile.

Negative factors – Pressure on the ratings could arise if there is a decline in the scale or profitability on a sustained basis and/or there is a sizeable debt-funded capital expenditure or a stretch in working capital intensity that would weaken the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

IRM Offshore and Marine Engineers Private Limited (IRM) traces its origin to the erstwhile entity with the same name, founded in 1964, which started its operations as a manufacturer of rubber and allied items for textile, engineering and mining industries. With expansions and product development targeted towards manufacturing import substitutes, the entity grew into a multi-divisional company offering more than 2,000 specialty rubber engineering products and services, mainly for offshore and onshore oil drilling, marine and infrastructure industries.

In August 2020, under a scheme of arrangement, the manufacturing operations along with the bank facilities of erstwhile IRM Offshore and Marine Engineers Private Limited was transferred to another entity – SAS Offshore and Marine Engineers Private Limited - which has been subsequently renamed as IRM Offshore and Marine Engineers Private Limited (rated entity). Erstwhile IRM Offshore and Marine Engineers Private Limited was renamed as IRM Infraprojects Private Limited, which houses the real estate projects of the Group. IRM has sales offices in Netherlands and Brazil under wholly-owned subsidiaries. IRM is the flagship company of the IRM Group.

Key financial indicators

IRM Standalone	FY2021	FY2022	H1 FY2023*
Operating income	100.6	100.7	69.8
PAT	5.0	3.9	5.8
OPBDIT/OI	6.0%	6.1%	7.6%
PAT/OI	4.9%	3.8%	8.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.7	1.5
Total debt/OPBDIT (times)	1.0	2.3	1.0
Interest coverage (times)	4.3	6.8	8.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 24, 2023	-	-	-
1 Fund-based limits - Others	Long-Term	15.00	-	[ICRA]BBB+ (Stable)	-	-	-
2 Non-fund based limits - Others	Short-term	9.95	-	[ICRA]A2	-	-	-
3 Fund-based/non-fund-based limits - Others	Long-term/Short-term	33.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-	-
4 Unallocated limits	Long-term/Short-term	17.05	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limits – Others	Simple
Short-term – Non-fund based limits – Others	Very Simple
Long-term/Short-term – Fund based/Non-fund based limits – Others	Simple
Long-term/Short-term – Unallocated limits	NA

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	Long-term – Fund-based limits – Others	-	-	-	15.00	[ICRA]BBB+ (Stable)
NA	Short-term – Non-fund based limits – Others	-	-	-	9.95	[ICRA]A2
NA	Long-term/Short-term – Fund based/Non-fund based limits – Others	-	-	-	33.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Long-term/Short-term – Unallocated limits	-	-	-	17.05	[ICRA]BBB+ (Stable)/[ICRA]A2

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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Branches



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