

February 28, 2024

Oriental Structural Engineers 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 – Term loan	344.98	294.98	[ICRA]AA (Stable); reaffirmed
Long-term – Fund based – Cash credit	250.00	250.00	[ICRA]AA (Stable); reaffirmed
Short-term – Non fund based facility	1125.00	1,175.00	[ICRA]A1+; reaffirmed
Total	1719.98	1719.98	

*Instrument details are provided in Annexure-I

Rationale

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

The ratings reaffirmation considers the steady dividend income from Oriental Infra Trust (OIT, rated [ICRA]AAA(Stable)), low leverage and exceptional financial flexibility arising from Oriental Group's unitholding of OIT (OSEPL and OTPL together hold 59.17% stake in OIT). Since its formation in FY2020, OIT made a total of 20 distributions and the Group received Rs. 1,464.8 crore (of which, ~Rs. 380.3 crore was received in 9M FY2024). 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 the InvIT's unitholders. The ratings note OSEPL's low leverage with TOL/TNW of 0.3 times and strong liquidity position, aided by sizeable, unencumbered liquid investments of Rs. 1,715 crore (as on February 19, 2024). Given the healthy accretion to reserves, driven by distribution income from OIT, and absence of any major debt-raising plans, its capital structure is likely to remain comfortable. Further, OIT has the 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. OSEPL has reported construction revenues of Rs. 1,425 crore in FY2023 and achieved billings of ~Rs. 1,375 crore in 9M FY2024. Although the revenues from the construction segment are expected to grow by ~25% in FY2024, the same is likely to moderate in FY2025 due to nil order addition in the current year. This apart, the rating positively factors in the extensive experience of the company's promoters in the construction sector.

The ratings are, however, constrained by the modest order book position of around Rs. 1,500 crore as on December 31, 2023, providing limited revenue visibility. While the company has been actively bidding for tenders, the order book has declined over the past one year from ~Rs. 3,300 crore as on September 30, 2022, owing to stiff competition in the industry. Besides, the order book is concentrated in terms of customer and sector, with its entire order book from the NHAI and majority of the order book constituted by two hybrid annuity mode (HAM) projects. ICRA notes the heightened competition in the road sector for both the engineering, procurement, and construction (EPC) and HAM projects. OSEPL's ability to secure new orders remains a key rating monitorable. ICRA, in its base case assumptions, has estimated new order inflow of Rs. 8,000 crore with majority of orders comprising BOT/HAM projects, during FY2025-FY2026. OSEPL is comfortably placed to meet the equity requirements towards these projects, given the strong liquidity. Any significantly higher-than-estimated equity commitment, which could materially impact liquidity or leverage metrics, could have a bearing on its credit profile and remains a key monitorable. The ratings also note 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's credit profile will continue to be supported by steady distribution income from OIT, sizeable addition to its existing order book supporting growth in EPC revenues and exceptional financial flexibility.

Key rating drivers and their description

Credit strengths

Exceptional financial flexibility with sizeable investment in OIT and regular distribution – The Oriental Group benefits from the steady dividend income stream from OIT and exceptional financial flexibility arising from its unitholding of OIT (OSEPL and OTPL together hold 59.17% stake in OIT since its formation in FY2020). OIT made a total of 20 distributions and the Group received Rs. 1,464.8 crore (of which, ~Rs. 380.3 crore was received in 9M FY2024). 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 the InvIT's unitholders. Further, OIT has the right of first refusal for the Group's BOT portfolio, which provides a platform for the Group for monetisation of its operational assets. OIT has a healthy operational profile with six stable operational road projects (five toll-based projects with an average toll collection track record of nearly 7.5 years; one annuity project with a track record of timely receipt of 17 full semi-annual annuities), all under Concession Agreement with the NHAI.

Strong liquidity profile, comfortable leverage and coverage metrics – The Oriental Group has a strong liquidity position with unencumbered liquid investments of ~Rs. 1,715 crore as on February 19, 2024. While the company has been actively bidding for tenders, ICRA in its base case projections has estimated Rs.700-800 crore of equity commitment towards developmental projects during FY2025-FY2026, of which Rs.139 crore is committed equity investments towards its two under-implementation HAM projects. Nonetheless, OSEPL is comfortably placed to meet the equity requirements from its existing liquidity. Any significantly higher than estimated equity commitment which could materially impact liquidity or leverage metrics could have a bearing on its credit profile and remains a key monitorable. Further, its financial risk profile is strong with total outside liabilities/tangible net worth at 0.3 times as on March 31, 2023 and interest coverage of 5.7 times in FY2023, aided by its limited reliance on external borrowings. Given the healthy accretion to reserves, supported by distribution income from OIT and absence of any major debt raising plans, the Group's liquidity position and the coverage indicators are expected to remain comfortable in medium term.

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.

Credit challenges

Modest order book position – OSEPL has a modest order book position of around Rs. 1,500 crore as on December 31, 2023, which is mainly from its two under-construction HAM projects. While the company has been actively bidding for tenders, the order book has declined over the past one year from ~Rs.3,300 crore as on September 30, 2022, owing to stiff competition in the industry. As on December 31, 2023, the order book/operating income (OB/OI) ratio is estimated to be at 1.1 times (of FY2023 OI from EPC business), which provides limited revenue visibility. Besides, the order book is concentrated in terms of customer and sector, with its entire order book from the NHAI and majority of the order book constituted by two HAM projects. ICRA also notes the heightened competition in the road sector for both the EPC and HAM projects and OSEPL's ability to secure new orders remains a key rating monitorable.

Intense competition in construction industry and sizeable non-fund based exposure – OSEPL procures orders through competitive bidding. ICRA notes the heightened competition in the road sector for both the EPC and HAM projects and the company's ability to secure new orders remains a key rating monitorable. OSEPL is exposed 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.

Liquidity position: Strong

The Oriental Group’s liquidity is strong, characterised by availability of healthy free cash balances and sufficient buffer available in its working capital facilities. OSEPL had free cash balance and liquid investments of ~Rs. 1,715 crore as on February 19, 2024. The company has debt repayments of Rs. 49.1 crore in FY2024 and Rs. 10.9 crore in FY2025. The cash flows from its operations are likely to remain comfortable for meeting the aforesaid obligations. The Oriental Group has pending equity investments of ~Rs. 139 crore over the next one year towards its two under-implementation HAM projects and Rs.550-650 crore towards projected new projects over the medium term, which can be comfortably met from its internal accruals and the existing cash balances.

Rating sensitivities

Positive factors – The ratings could be upgraded if the share of capital employed in OIT increases to over 85% of OSEPL’s total capital employed resulting in a significant increase in distribution income from OIT, on a sustained basis, while maintaining its negative net debt position and keeping a strong liquidity position.

Negative factors – Pressure on the ratings could arise if there is a deterioration in the company’s liquidity profile due to considerable increase in exposure to developmental projects and/or large debt-funded acquisitions and/or there is significant pressure on earnings from the EPC business. The ratings could come under pressure if the share of capital employed in OIT falls below 50% of OSEPL’s total capital employed and/or if the ratio of the Group’s debt to distribution received from OIT (InvIT) increases to more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Methodology for Construction Entities Corporate Credit Rating Methodology Investment Companies
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 five of its subsidiaries/SPVs –which are set up for undertaking HAM road projects (refer Annexure-II). 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

Oriental Structural Engineers Private Limited (OSEPL) was incorporated in 1971. It is specialised in highways and airfield works. From the early focus on airfield construction, OSEPL has successfully completed pavement works at 39 Indian airports and has constructed more than 8,162 km.

The Oriental Group, promoted by the New Delhi-based Bakshi family, 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.

Key financial indicators (audited)

Consolidated – OSEPL and OTPL	FY2022	FY2023
Operating income *	1,561.4	1,683.4
PAT	326.6	1,111.6
OPBDIT/OI	2.6%	20.0%
PAT/OI	20.9%	66.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	16.0	0.9
Interest coverage (times)	0.6	5.7

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

*Includes dividend and interest receipts from OIT

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Feb 28, 2024	Nov 29, 2022	Feb 25, 2022	Feb 11, 2022	-
1 Term loan	Long term	294.98	184.87	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2 Cash credit	Long term	250.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	-
3 Non-fund based facility	Short term	1,175.00	-	[ICRA]A1+	[ICRA]A1+	[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 facility	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	Term loan	July 2021	-	FY2027	294.98	[ICRA]AA (Stable)
NA	Cash credit	-	-	-	250.00	[ICRA]AA (Stable)
NA	Non-fund based facility	-	-	-	1175.00	[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

Company Name	OSEPL & OTPL's Ownership	Consolidation Approach
Oriental Tollways Private Limited (OTPL)	100.00%	Full Consolidation
Binjhabahal to Telebani Section Highways Private Limited	100.00%	Limited Consolidation
Kallagam-Meensurutti Highway Pvt Ltd	100.00%	Limited Consolidation
Rajiv Chowk-Sohna Highway Pvt Ltd	100.00%	Limited Consolidation
Poondiankuppam-Sattanathapuram Section Private Limited	100.00%	Limited Consolidation
Edapally To Kodungallur Highway Pvt Ltd	100.00%	Limited Consolidation

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

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