February 24, 2023

Vishesh Engineering Company: Ratings downgraded to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	10.0	10.0	Rating downgraded to [ICRA]D from [ICRA]B-(Stable)
Long -term – Non- Fund Based Others	4.5	4.5	Rating downgraded to [ICRA]D from [ICRA]B-(Stable)
Total	14.5	14.5	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade of ratings of Vishesh Engineering Company (VEC) takes into consideration the delays in debt servicing in the recent past owing to poor liquidity position on account of stretched working capital cycle. The working capital cycle has been stretched owing to increased work in progress and receivables on account of disputes related to penalty charges levied by customer. ICRA has been receiving the No Default Statement (NDS) from VEC regularly in the prior months, which did not suggest irregularity in debt servicing. However, the latest information suggests instances of delays in debt servicing by VEC and there were instances of overutilization of the Cash Credit limits (of more than 30 days). Further, the rating continues to remain constrained by small scale of operations, weak coverage indicators and high customer concentration risk. ICRA notes firm's extensive experience in providing on-shore 3D seismic survey services to various oil and gas exploration and production (E&P) companies and the low counterparty credit risk owing to its the reputed clientele.

Key rating drivers and their description

Credit strengths

Established track record in oilfield services industry – The firm has more than 30 years of experience in conducting onshore seismic surveys for various oil and gas E&P companies. This has resulted in constant order flow over the years.

Reputed client profile – The counterparty credit risk remains low as the firm mainly provides services to Oil and Natural Gas Corporation (ONGC) in the domestic market. However, the customer concentration risk is high with orders from ONGC and Cairn Oil & Gas, Vedanta Limited, received on a subcontract basis, accounting for its entire order book.

Credit challenges

Delays in debt servicing owing to stretch in working capital cycle – Delays in debt servicing has been noticed in the recent past due to stretch in their receivable position, owing to the issues related to penalty charges levied by the customer. The firm's working capital intensity remained high at 180% in FY2022 which increased from 132% in FY2021 owing to high work in progress and debtor days. Due to the seasonality in business, most of the orders are executed in the first and last quarters of the financial year, which results in high year-end debtors. Further, owing to the manpower-intensive business, VEC pays high advances to workers to retain quality manpower.

Small scale of operations and weak coverage indicators – The firm's scale of operation continues to be small as reflected by an OI of Rs. 16.5 crore in FY2022, which declined from 19.6 crore in FY2021 due to various pandemic-related challenges. Improvement in revenues remains dependent on further order addition and ramp up of project execution. The coverage indicators remained weak with NCA/Total Debt of 7% in FY2022 owing to high borrowing and low absolute OPBDITA arising from low scale of operations.

High customer concentration risk - VEC's customer concentration risk is high, as the entire order book is filled with orders from ONGC. However, the counterparty credit risk remains low as the firm primarily provides services to ONGC Ltd in the domestic market.

Inherent risk in oilfield seismic survey services business - The oilfield services industry is a technology and manpower intensive business. Although the same has resulted in high entry barriers, the retention of manpower remains a challenge for the firm in the survey business. A typical seismic data acquisition project is executed between November and June during the non-monsoon season, as it results in ease of the movement of manpower and better data acquisition. This results in a predominant share of cash flows being generated in the first and last quarters of the financial year. Further, VEC's revenue is dependent on ability to win tenders and favourable Government policies. Lower investment from various oil and gas E&P companies can impact the revenue adversely.

Risk of withdrawals as inherent in partnership firms - EEC is exposed to the risk of withdrawals given the partnership nature of the firm

Liquidity position: Poor

The firm's liquidity is poor on account of stretched working capital cycle. The company is delaying in meeting its repayment obligations and there were instances of overutilisation of the Cash Credit limits (of more than 30 days).

Rating sensitivities

Positive factors – The ratings could be upgraded if the debt servicing is regularised for a sustained period, as per ICRA policy.

Negative factors – Not applicable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in 1986, Vishesh Engineering Company (VEC) is into preliminary seismic survey services such as land and transition zone surveys, shallow-water services and acquisition of 2D and 3D data through shot hole drilling process, primarily for oil exploration and production (E&P) companies, mostly ONGC. The firm is based out at Guntur, Andhra Pradesh and has three partners Mrs. Jhansi Lakshmi, Mr. N. Ramachandra Raju and Ms B. Sowmya. The operations are currently managed by the CEO, Mr. B.V. Sivarama Raju, who has more than 30 years of experience in seismic services.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	19.6	16.5
PAT	0.5	1.0
OPBDIT/OI	15.4%	20.1%
PAT/OI	2.7%	6.0%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	4.4	4.5
Interest coverage (times)	1.3	1.4

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 colspan="2" rowspan="3">Instrument</th><th colspan="4">Current rating (FY2023)</th><th colspan="4">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 of Mar 31, 2022 (Rs. crore)</th><th>Date & rating in FY2023</th><th>Date & rating in FY2022</th><th colspan="2">Date & rating in FY2021</th><th>Date & rating in FY2020</th></tr>
<tr><th>February 24, 2023</th><th>Nov 25, 2021</th><th>Aug 25, 2020</th><th>Jul 30, 2020</th><th>-</th></tr>
<tr><td>1</td><td>Fund based Cash Credit</td><td>Long term</td><td>10.00</td><td>-</td><td>[ICRA]D</td><td rowspan="2">Ratings downgraded to [ICRA]D/[ICRA]D and simultaneously upgraded to [ICRA]B-(Stable)</td><td colspan="2">[ICRA]BB-(Stable)</td><td>-</td></tr>
<tr><td>2</td><td>Non-fund based limits - Others</td><td>Long term</td><td>4.5</td><td>-</td><td>[ICRA]D</td><td colspan="2">[ICRA]BB-(Stable)</td><td>-</td></tr>
</table>

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long -term – Non- Fund Based Others	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
-	Cash Credit	-	-	-	10.00	[ICRA]D
-	Non Fund Based - Others	-	-	-	4.5	[ICRA]D

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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