November 29, 2022

Oriental Structural Engineers Private Limited: Long-term rating upgraded to [ICRA]AA(Stable) and short-term rating reaffirmed at [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Term loan	458.13	344.98	[ICRA]AA (Stable); Upgraded from [ICRA]AA-(Stable)
Long-term – Fund-based/Cash credit	250.00	250.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA-(Stable)
Short-term – Non-fund based	1125.00	1125.00	[ICRA]A1+; reaffirmed
Total	**1833.13**	**1719.98**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, 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 rating action reflects the substantial improvement in OSEPL's liquidity position and leverage structure, driven by proceeds from the sale of one of its special purpose vehicles (SPV) - Biaora to Dewas Highway Private Limited (BDHPL) to Oriental InfraTrust (OIT, rated [ICRA]AAA/Stable; an InvIT sponsored by Oriental Group) for Rs. 1,250 crore. This apart, in Q4 FY2022, OSEPL had received Rs. 542.1 crore as proceeds from arbitration award settlement from the National Highways Authority of India (NHAI), rated [ICRA]AAA (Stable), for one of its projects. The net proceeds (adjusted for tax) from these events stands at around Rs. 1,500-1,600 crore significantly boosting OSEPL's liquidity, which is maintained as unencumbered liquid investments/fixed deposits. The Group is exploring organic/inorganic growth plans to deploy its surplus liquidity while maintaining the negative net debt status. The ratings are supported by steady dividend income stream from OIT, low leverage and exceptional financial flexibility arising from its unitholding of OIT (OSEPL and OTPL together hold 60% stake in OIT). Since its formation, OIT made 13 distributions worth Rs. 897 crore (of which, Rs. 185 crore was received in H1 FY2023). 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 unit holders. 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. The Oriental Group has other operational projects, which will be eligible for sale to InvIT over the medium term. However, there are no binding offers at this stage. The rating is supported by OSEPL's strong financial risk profile, driven by low leverage with TOL/TNW of 0.4 times as on March 31, 2022. Given the healthy accretion to reserves supported by distribution income from OIT, and absence of any major debt-raising plans, its capital structure is likely to remain comfortable. This apart, the rating positively factors in the extensive experience of the company's promoters in the construction sector.

The rating strengths are partially offset by the moderate order book position of around Rs. 3,300 crore as of September 2022, which is primarily from its two under-construction hybrid annuity mode (HAM) projects. The order book value and operating income (OI) both have seen a decline in FY2022 over previous year and there was no new order added in FY2023. The rating factors in the heightened competition in the road sector for both the engineering, procurement, and construction (EPC) and HAM projects, which make it difficult to secure new orders while sustaining profitability. The rating factors in the sizeable pending investments of ~Rs. 355 crore over the next two years towards the under-implementation HAM projects, and further ~Rs. 600 crore of investments expected towards the new HAM projects of up to Rs. 4,000 crore value planned to be added in the next one year. However, OSEPL has strong liquidity and adequate internal generation to meet this requirement. Besides, the order book is also concentrated in terms of customer and sector, with its entire pending order book concentrated with orders from the NHAI (indirectly as contracts are awarded by SPVs developing HAM projects), and majority of the order book is constituted by two HAM projects. The rating also notes 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 will continue to benefit from steady distribution from OIT and exceptional financial flexibility, its favourable operational track record in the road construction segment, and reputed clientele.

Key rating drivers and their description

Credit strengths

Strong liquidity profile, comfortable leverage and coverage metrics - The Oriental Group reported a strong liquidity position with unencumbered cash and bank balances of ~Rs. 1,867 crore as on November 20, 2022. OSEPL's liquidity position has improved significantly from the sale of one of its SPV – BDHPL, which has resulted in gross cash inflow of Rs. 1,250 crore and arbitration award settlement of Rs. 542 crore received from the NHAI. Further, the Group's strong financial profile is characterised by a comfortable capital structure (total outside liabilities/tangible net worth ratio stood at 0.4 times as on March 31, 2022), and coverage indicators (interest coverage, DSCR and total debt/OPBIDTA of 9.5 times, 2.9 times and 1.0 times, respectively, in FY2022), aided by its limited reliance on external borrowings, coupled with its sizeable net worth position of Rs. 4,867 crore as on March 31, 2022. With the improvement in Group's liquidity position and debt reduction, the coverage indicators are expected to improve in medium term. This apart, its capital structure is likely to remain comfortable, given the healthy accretion to reserves supported by distribution income from OIT and absence of any major debt-raising plans.

Exceptional financial flexibility with sizeable investment in OIT and regular distribution - The Oriental Group benefits from the steady dividend income stream from OIT, low leverage and exceptional financial flexibility arising from its unitholding of OIT (OSEPL and OTPL together hold 60% stake in OIT). Since its formation, OIT made 13 distributions worth Rs. 897 crore (of which, Rs. 185 crore was received in H1 FY2023). 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 unit holders. Further, OIT has 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; one annuity based project with a track record of timely receipt of 14 full semi-annual annuities), all under Concession Agreement with the NHAI.

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. The company has been involved in construction of roads (both rigid and flexible pavements), airfields, bridges, and flyovers, among others. It has executed over 8,000 kms of national/state highways, across various locations of the country.

Credit challenges

Moderate order book with high project concentration and execution risks - OSEPL has a moderate order book position of around Rs. 3,300 crore as of September 2022, which is primarily from its two under-construction hybrid annuity mode (HAM) projects. Its order book value and OI declined in FY2022 over the previous year and there was no new order added in FY2023. As of September 2022, the order book/operating income (OB/OI) ratio is estimated at 2.4 times (of FY2022 OI from EPC business), which provides moderate revenue visibility. OSEPL's order book is also concentrated in terms of customer and sector, with its entire pending order book concentrated with orders from the NHAI (indirectly as contracts are awarded by SPVs developing HAM projects), and majority of the order book is constituted by two HAM projects, of which work on one of the projects is yet to start. Any prolonged lower new order inflow or slowdown in execution of orders could impact the Group's scale of operations and profitability going forward.

Exposure to new HAM projects or inorganic expansion - The Oriental Group has under-implementation HAM projects, sizeable pending investments of ~Rs. 355 crore over the next two years towards the under-implementation HAM projects, and further ~Rs. 600 crore of investments estimated towards new HAM projects of up to Rs. 4,000 crore value planned to be added over the next one year period. However, OSEPL has strong liquidity and adequate internal generation to meet this requirement. Nevertheless, if the Group undertakes significantly higher-than-expected HAM projects or makes sizeable investments into acquisition/new projects, which considerably impacts its liquidity position, there could be adverse impact on its overall credit profile and remains a key monitorable.

Intense competition in construction industry and sizeable non-fund-based exposure - OSEPL procures orders through competitive bidding. With presence of multiple players there is heightened competition in the road sector for both the EPC and HAM projects, which make it difficult to secure new orders while sustaining profitability. However, the company is relatively better placed to secure new orders with healthy financial flexibility and ability to bid for large projects with an order value of ~Rs. 1,500 crore – Rs. 2,000 crore, which are expected to have relatively lower competition. 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 and equivalents and sufficient buffer available in its working capital facilities. OSEPL had free cash balance and liquid investments of ~Rs. 1,867 crore as on November 20, 2022. The annual repayment obligations on its term loans ranges within Rs. 26 crore – Rs. 45 crore/year for the next three years and the cash flows from its operations are likely to remain adequate for meeting the aforesaid obligations. The Oriental Group has two under-implementation HAM projects and with pending equity investments of ~Rs. 355 crore over the next one to two years, which can be comfortably met from its internal accruals and the existing cash balances.

Rating sensitivities

Positive factors - The rating 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 strong liquidity position.

Negative factors - Negative pressure on the rating 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 significant pressure on earnings from the EPC business. The rating 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	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Consolidation Rating Approach Holding Companies Rating Methodology
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 has grown to be one of the top players in the Indian infrastructure sector, specialising in highways and airfield. It has been in existence for over five decades in India and elsewhere and has established itself as a brand that is synonymous with high quality and speedy execution. 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 *	FY2021	FY2022
Operating income	2098.9	2,152.5
PAT	277.6	326.6
OPBDIT/OI	19.1%	29.4%
PAT/OI	13.2%	15.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	1.2	1.0
Interest coverage (times)	4.4	9.5

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

**ICRA has consolidated financials of OSEPL and OTPL for its analysis*

^ICRA has adjusted the OPBIDTA considering the distribution income from OIT and claims realised in FY2022 as operating income.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 05,2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Nov 29, 2022	February 25, 2022	February 11, 2022	-	-
1	**Fund-based facility – Term loan**	Long term	344.98	344.98	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	-	-
2	**Fund-based facility – Cash credit**	Long term	250.00	-	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**	-	-	-
3	**Non-fund based facility**	Short term	1125.00	-	**[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	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 facility – Term loan I	July 2021	-	FY2027	118.43	[ICRA]AA (Stable)
NA	Fund-based facility – Term loan II	Apr 2019	-	FY2032	226.55	[ICRA]AA(Stable)
NA	Fund-based facility – Cash credit	-	-	-	250.00	[ICRA]AA (Stable)
NA	Non-fund based facility	-	-	-	1125.00	[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%	Full Consolidation
Biaora to Dewas Highway Private Limited	100%	Limited consolidation
Binjhabahal to Telebani Section Highways Private Limited	100%	Limited consolidation
Kallagam-Meensurutti Highway Pvt Ltd	100%	Limited consolidation
Rajiv Chowk-Sohna Highway Pvt Ltd	100%	Limited consolidation
Poondiankuppam-Sattanathapuram Section Private Limited	100%	Limited consolidation
Edapally To Kodungallur Highway Pvt Ltd	100%	Limited consolidation

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

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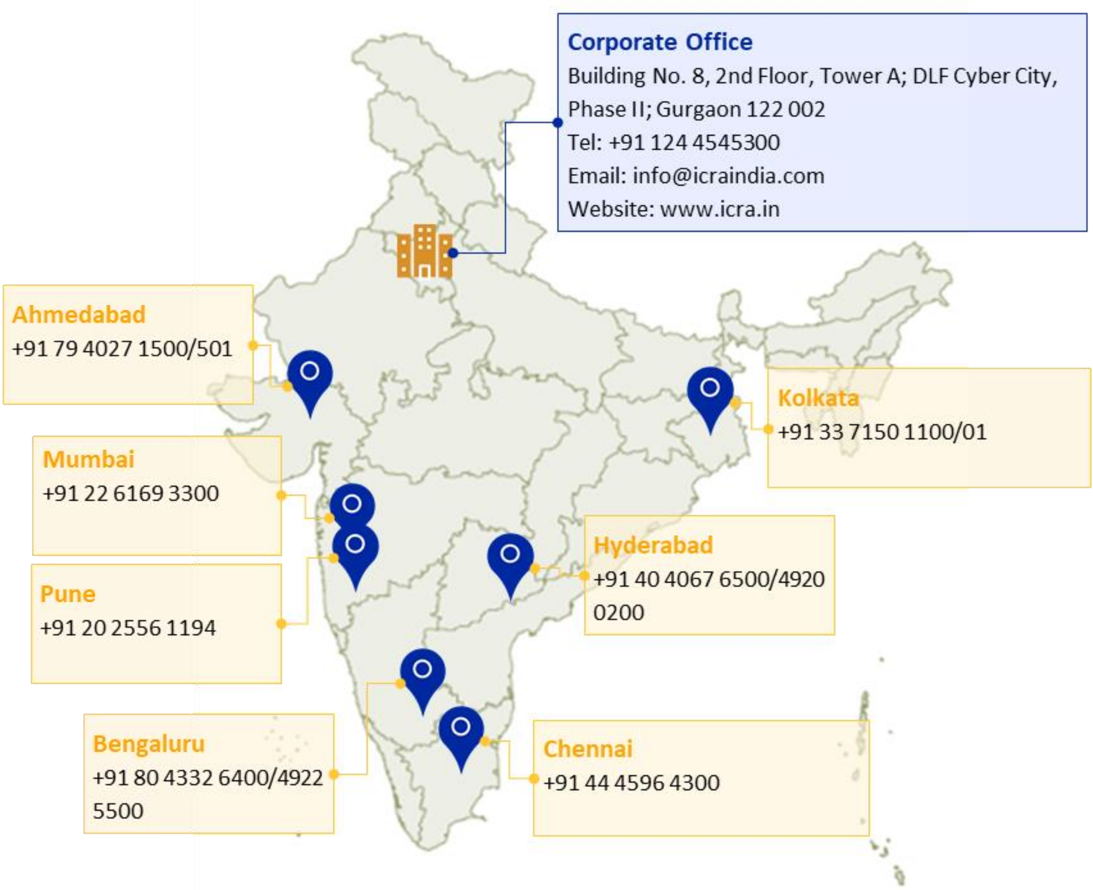

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