

Press Release

Ocean Constructions India Private Limited

April 04, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	75.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITÉ BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITÉ A4+**' (read as **ACUITE A Four Plus**) on the Rs 100.00 Cr. bank facilities of Ocean Constructions (India) Private Limited (OCIPL). The outlook is '**Stable**'.

Rationale for Rating Assigned

The rating assigned reflects a long track record of operations along with a healthy order book position of Rs 3,013 crores as on December, 2022 and above average financial risk profile of the company. However, the above strengths are partly offset by working capital intensive operations, stretched liquidity positions and high competitive nature of industry.

About the Company

Ocean Constructions India Pvt. Ltd (OCIPL) is one of the leading infrastructure construction companies of Mangalore-Karnataka. The company was incorporated in the year 2008 to take over the running business which was carried on by the promoters as a proprietary concern and has been existence in this line of business for more than a decade. The company is concentrated on providing a pro-active and flexible construction service for a number of clients throughout Karnataka including Government PWD and Public Sector Undertakings. The company is a registered for carrying out contracts for various government departments such as PWD Class I Contractor, National Highways KBJNL, VJNL, CNL & KNL as a Category I contractor. The promoters of the company are Mr. Sharfudin Ali and his brother Mr. Inayat Ali & Mr. Abid Ali.

The company is undertaking Irrigation works, Canal construction & Aqua duct works, Earth works & Land levelling, construction services like Concrete Roads, sub/foundations & superstructures, Laying and construction of roads and infrastructure projects and providing interiors to office complexes.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of OCIPL to arrive at the rating.

Key Rating Drivers

Strengths

>Established operational record and Healthy order book

OCIPL is one of the leading infrastructure construction companies of Mangalore-Karnataka.

The company has an established track record of more than 13 years and promoters of the company also has a vast experience of more than decade in this line of business. The company is a registered for carrying out contracts for various government departments such as PWD Class I Contractor, National Highways KBJNL, VJNL, CNL & KNL as a Category I contractor.

OCIPL has a healthy order book of Rs 3,013 crores pending to be executed as on December 2022 including Rs.1646 crore of orders acquired recently in FY 2022. The company also has an order of Rs 200 crore at L1. The healthy order book indicates a satisfactory medium term revenue visibility. The revenue of the company has declined in FY 2021 to Rs 352.04 crores as against Rs 516.20 crores in FY 2020. However, the company has already achieved a revenue of Rs 295.77 crores till January 2022 and are expecting to achieve a revenue of Rs 400 crores in this fiscal year.

Acuité believes OCIPL will continue to benefit from its long track of operations, healthy order book and the rich experience of the management.

>Above Average financial risk profile

The financial risk profile of the company stood healthy marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.107.31 crore as on 31 March, 2021 as against Rs.96.28 crore as on 31 March, 2020. The total debt of the company stood at Rs.49.12 crore includes Rs.13.67 crore of long term debt, Rs.7.10 crore unsecured loans from directors and Rs.16.18 crore of short term debt as on 31 March, 2021. The gearing (debt-equity) stood at 0.46 times as on 31 March, 2021 as compared to 0.44 times as on 31 March, 2020. Interest Coverage Ratio stood healthy at 9.44 times for FY2021 as against 15.06 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 1.07 times in FY2021 as against 2.72 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.47 times as on 31 March, 2021 as against 2.63 times on 31 March, 2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.43 times for FY2021.

Acuité believes that the financial risk profile of the OCIPL is likely continue to remain healthy on account of steady margins and conservative financial policy.

Weaknesses

>Working Capital Intensive Operations

Company has a working capital intensive operations marked by GCA days of 263 days in FY2021 as against 163 days in FY2020. The inventory days stood at 10 days in FY 2021 as against 6 days in FY 2020 and the debtor days stood at 202 days in FY2021 as against 124 days in FY2020. The debtor days has increased substantially in FY 2021 as payments from the Karnataka Government got delayed. The average bank limit utilization for last 6 months ending February 2022 is more than 95%.

Acuité expects the working capital management to remain intensive over the medium term on account of the delay in realisation from customers, which is inherent in the aforementioned industry.

>Highly Competitive Industry

The infrastructure is a fairly fragmented industry with a presence of few large pan India players where subcontracting & project specific partnerships for technical/financial reasons are fairly common. The company faces stiff competition with its competitors in procuring orders through bidding, immense competition for procuring tenders leads to very competitive pricing which in turn lead to stress on the margins. Moreover, susceptibility of raw material pricing again keeps profit margin vulnerable and is a key sensitivity factor.

Rating Sensitivities

- Improvement in scale of operations and profitability margin.

Stretch in working capital cycle and liquidity position.

Material covenants

None.

Liquidity Position: Stretched

The company's liquidity position is stretched as the average bank limit utilization for the past 6 months ending February 2022 for Canara Bank is ~ 98.28 percent and for the past 9 months ending February 2022 for Karnataka Bank is ~ 93.92 percent and also the company has availed TODs from bank frequently in the recent past. However, they have sufficient net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of Rs.21.23-37.02 Crore from FY 2019- 2021 against the maturing debt obligations of Rs.11.17-19.31 crores during the same tenure. And also, is expected to generate a sufficient cash accrual in the range of Rs 49.90-55.51 crores against the maturing repayment obligations of around Rs 5.11-12.17 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 263 days in FY2021 as against 163 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.2.78 crore as on March 31, 2021. The current ratio stands at 1.22 times as on March 31, 2021.

Outlook: Stable

Acuité believes the outlook on OCIPL will remain 'Stable' over the medium term backed by its established track record of operations, healthy order book position and healthy financial risk profile. The outlook may be revised to 'Positive' if the company is able to ramp up its scale of operation along with sustenance in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity profile due to increase in working capital requirement.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	352.04	516.20
PAT	Rs. Cr.	11.03	27.98
PAT Margin	(%)	3.13	5.42
Total Debt/Tangible Net Worth	Times	0.46	0.44
PBDIT/Interest	Times	9.44	15.06

Status of non-cooperation with previous CRA (if applicable)

ICRA, vide its press release dated May 19, 2021 had denoted the rating to OCEAN CONSTRUCTION (INDIA) PRIVATE LIMITED (OCIPL) as 'ICRA D' (Issuer Not Cooperating)' on account of Delay in Debt Repayment.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karnataka Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ Assigned
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A4+ Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB Stable Assigned
Karnataka Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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