

Orient Abrasives Limited

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	74.25 (Reduced from 82.24)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	14.40 (Reduced from 15.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	88.65 (Rs. Eighty-Eight Crore and Sixty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orient Abrasives Limited (OAL) continue to derive strength from the established track record of operations and competitive market position of the company in the abrasives grain industry. The ratings further derive strength from OAL's operational efficiency on account of captive mines & power plant along with its comfortable capital structure & strong coverage indicators. The rating strengths are however, tempered by moderate scale of operations, working capital intensive nature of operations and cyclical nature of the end user industry.

Rating Sensitivities

Positive Factors-

- Improvement in operating cycle to 120 days leading to improved liquidity position of the company.
- Increase in scale of operations over Rs. 400 crores resulting in significant market share.

Negative Factors-

- Deterioration in operating profit margins below 10% for a sustained period
- Higher than expected debt funded capex leading to deterioration of overall gearing above 0.5x
- Any recurrence of labour strike resulting in adverse impact on operations of OAL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of the company

OAL has an established track record in the abrasives industry of more than four decades; the company primarily operates in fused aluminium oxide grains (including calcined products, monolithic) and power generation. In July 2015, OAL's operations were acquired by Bombay Minerals Limited (BML, established in 1953) engaged in mining of bauxite and manufacturing of calcined bauxite. BML is subsidiary of Ashapura Minechem Limited (AML), part of Ashapura Group which operates in mineral processing and also exports bauxite and bentonite. The company thus derives benefit from long standing promoter experience in the industry; currently OAL's day-to-day operations are managed by a team of qualified and experienced managers. OAL enjoys well established market position in the aluminium oxide grains market; furthermore, in the brown fused alumina category OAL accounts for a major market share.

Operational efficiency on account of captive bauxite mines and power plants

OAL's key raw materials are raw bauxite, and calcined alumina (for white fused alumina); the company is well integrated for the same with captive access to raw bauxite mines at Bhatia, Jamnagar and Bhuj in Gujarat; however, due to the low-grade bauxite mines company procures high-grade bauxite from open market. Furthermore, the manufacturing operations are power intensive, for which the company has captive coal based power plant with installed capacity of 9 MW. Additionally, the company owns a digital generator set of 9 MW for contingencies. OAL thus draws benefit in terms of cost efficiency.

Comfortable capital structure and debt coverage indicators

OAL has healthy financial risk profile with overall gearing of 0.14 times as on March 31, 2021 (0.26 times as on March 31, 2020). Total debt of the company majorly consists of working capital bank borrowings and fixed repayment obligations are nominal as compared to the GCA. Total debt/gross cash accruals; total debt/PBILD and total debt/cash flow from operations improved respectively to 1.56 times, 1.01 times and 1.11 times in FY21 and continue to be comfortable. The PBILD interest

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

coverage indicators improved from 5.34 times in FY20 to 5.87 times in FY21 on account of lower interest expenses in FY21 due to lower utilization of working capital borrowings.

Key Rating Weaknesses

Relatively Moderate scale of operations

Currently, the company undertakes manufacturing of calcined bauxite, fused aluminium oxide abrasive grains, refractory castables and monolithics. Aluminium oxide and calcinated products are major contributors in the operating income along with some part of operating income coming from Monolithics and wind power division. Though OAL reported 11.71% decline in total operating income for FY21 the scale of operations continues to be relatively moderate vis-à-vis the size of the industry/peers.

Working capital intensive operations

The operations of the company are working capital intensive in nature. The inventory holding period for raw bauxite is high owing to uncertainty over the availability of plant grade bauxite from own mines and outside market. Thus, the inventory days continues to be high at 121 days in FY21. The operating cycle remained high at 192 days in FY21 against 178 days in FY20. However, comfort can be drawn from the fact that OAL's limits for working capital borrowings are 23% of its FY21 revenue and majority of working capital requirement are funded by internal funds.

Cyclical nature of end-user industries

Products of OAL are consumed by companies in steel and cement sector. Thus, the demand for OAL's products is closely linked to the demand emanating from industries such as steel, cement and abrasives (which in turn depend on industrial growth in the economy). The steel and cement industry are sensitive to the shifting business cycles including changes in the general economy and seasonal changes in the demand and supply conditions in the market thus intern exposing performance of OAL to the economic cycles.

Liquidity: Adequate

The liquidity is marked adequate on account of expected GCA of Rs. 20-22 crores in FY22 against the nominal debt repayment of Rs. 3.93 crores. The average unutilized fund based limits for past 12 months ending July 2021 is Rs. 45.32 crores. The company has unencumbered cash and bank balances of Rs. 2.82 crores as on September 21, 2021. Liquidity is also supported by majority of the working capital requirement being funded by internal funds. With a gearing of 0.14 times as of March 31, 2021, OAL has sufficient gearing headroom, to raise additional debt if required.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

Orient Abrasives Limited (OAL) was incorporated in 1971; the company primarily operates in two segments namely fused aluminium oxide grains (including calcined products, monolithic) and power generation. In FY16, Bombay Minerals Ltd (BML; already holding 18% equity stake in OAL as on March 31, 2015) jointly with Cura Global Holdings Limited (CGHL; a private limited company established in year 2014 in Mauritius and a part of the prominent overseas investment fund Lambasa Global Opportunity Fund B.V.) commenced the process of acquiring promoter equity stake. BML and Cura Global Holdings Limited acquired shares through open offer taking the share of BML to 31.76% and CGHL to 23.73% as on June 30, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	351.48	304.17
PBILDT	46.14	34.13
PAT	20.56	11.37
Overall gearing (times)	0.26	0.14
Interest coverage (times)	5.34	5.87

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term		-	-	-	4.25	CARE A-; Stable
Non-fund-based-Short Term		-	-	-	14.40	CARE A2+
Fund-based - LT-Cash Credit		-	-	-	70.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	4.25	CARE A-; Stable	-	1)CARE A-; Stable (03-Aug-20)	1)CARE A-; Stable (05-Apr-19)	1)CARE A (CWN) (09-Jul-18)
2	Non-fund-based-Short Term	ST	14.40	CARE A2+	-	1)CARE A2+ (03-Aug-20)	1)CARE A2+ (05-Apr-19)	1)CARE A1 (CWN) (09-Jul-18)
3	Fund-based - LT-Cash Credit	LT	70.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Aug-20)	1)CARE A-; Stable (05-Apr-19)	1)CARE A (CWN) (09-Jul-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based-Short Term	Simple
3	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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