Orient Abrasives Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	70.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	14.40	CARE A2+ (A Two Plus)	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Total bank facilities	**84.40 (₹ Eighty-four crore and forty lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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 and power plant along with its comfortable capital structure and strong coverage indicators. The rating strengths are, however, tempered by moderate scale of operations, decline in the operational performance, susceptibility due to unavailability of raw material, working capital intensive nature of operations and cyclical nature of the end-user industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the operating cycle to 120 days leading to improved liquidity position of the company.
- Increase in the scale of operations over ₹600 crore resulting in significant market share.

Negative factors – Factors that could lead to negative rating action/downgrade:

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

Outlook: Stable

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 the mining of bauxite and manufacturing of calcined bauxite. BML is subsidiary of Ashapura Minechem Limited (AML), a part of the Ashapura Group, which operates in mineral processing and also exports bauxite and bentonite. The company thus derives benefit from the 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, OAL accounts for a major market share in the brown-fused alumina (BFA) category.

Operational efficiency on account of captive bauxite mines and power plants: The key raw materials of OAL 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, the 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and debt coverage indictors: The total debt in the company as on March 31, 2022, entirely includes working capital bank borrowings. The overall gearing increased slightly from 0.14x in FY21 to 0.15x in FY22, mainly due to increase in the total debt from ₹25.16 crore in FY21 to ₹37.73 crore in FY22 (refers to the period April 1 to March 31). The increase in the total debt is attributed to the higher working capital borrowings utilisation. Also, the total debt/gross cash accruals (TDGCA), total debt/PBILDT and total debt/cash flow from the operations deteriorated to 2.04x, 2.18x and 1.52x in FY22. The PBILDT interest coverage indictors improved marginally from 5.58x in FY21 to 5.80x in FY22, mainly on account of lower PBILDT in FY22 due to lower level of operations. The PBILDT interest coverage indicators remains healthy at 10.16x in Q1FY23.

Key rating weaknesses

Relatively moderate scale of operations and decline in the operational performance: 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 the operating income coming from monolithics and wind power division. Though OAL reported 11.25% decline in the total operating income (TOI) for FY22 due to suspended operations at its Porbandar plant because of non-availability of core materials- specialised raw bauxite required to produce BFA, the scale of operations continues to be relatively moderate vis-à-vis the size of the industry/peers. The PBILDT margins declined from 10.73% in FY21 to 6.46% in FY22 due to combine effect of decline in the TOI and similar fixed expenses. The profit after tax (PAT) margin also declined from 3.76% in FY21 to 2.56% in FY22 in line with decline in PBILDT margin.

Susceptibility due to unavailability of raw material: The specialised grade bauxite is the key raw material requirement to produce the refractory raw materials. The company's operations have been affected by non-availability of core raw material - specialised grade raw bauxite to produce BFA and other products. All the required raw bauxite resources with the company have been exhausted, and in view of the same, the company had significantly suspended the related operations at its Porbandar plant. The company is continuously looking for alternatives such as importing raw material, buying from the suppliers, however, the required quality of the bauxite is not available and if available then the cost of the same is high. OAL through its subsidiary, Orient Advances Material Private Limited (OAMPL), sources its requirement of high-grade bauxite sold by Gujarat Mineral Development Corporation Ltd on behalf of Government of Gujarat. The sourcing of bauxite was carried out through its subsidiary because of the circular passed by the Government of Gujarat prohibiting the sale of bauxite to the entities already owning the bauxite mines.

Working capital intensive operations: The operations of the company are working capital intensive in nature. The inventory days improved to 101 days in FY22 against 121 days in FY21. The operating cycle improved slightly to 179 days in FY22 against 192 days in FY21. The average utilisation in working capital fund-based limits is around 49% (P.Y - 35%) for 12-month period ended June 2022. However, comfort can be drawn from the fact that OAL's limits for working capital borrowings are around 19% of its FY22 revenue and majority of working capital requirement are funded by internal funds.

Cyclical nature of end-user industries: The products of OAL are consumed by the companies in the 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 is 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, in turn exposing the performance of OAL to the economic cycles.

Liquidity: Adequate

The liquidity is marked by adequate GCA of ₹18.50 crore for FY22 against no term debt obligations. The average unutilised fund-based limits for past 12 months ending June 2022 is ₹25.50 crore, which is around 51% of the sanctioned limits. The company has unencumbered cash and bank balances of ₹4.20 crore as on August 25, 2022. With a gearing of 0.15x as on March 31, 2022, OAL has sufficient gearing headroom, to raise additional debt if required.

Analytical approach: Consolidated

The approach was changed from standalone to consolidated due to acquisition of 100% equity stake in Orient Advanced Materials Private Limited (OAMPL), which they acquired during June 2021. Due to strategic and operational linkages between OAMPL and OAL, consolidated approach has been adopted.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company

Incorporated in 1971, Orient Abrasives Limited (OAL) 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 CGHL 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	302.51	268.49	92.16
PBILDT	32.46	17.34	8.64
PAT	11.37	6.86	3.83
Overall gearing (times)	0.13	0.15	N/A
Interest coverage (times)	5.58	5.80	10.16

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term loan-Long term		-	-	31/10/2022	0.00	Withdrawn
Non-fund-based-Short term		-	-	-	14.40	CARE A2+
Fund-based - LT-Cash credit		-	-	-	70.00	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term loan-Long term	LT	-	-	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (03-Aug-20)	1)CARE A-; Stable (05-Apr-19)
2	Non-fund-based-Short term	ST	14.40	CARE A2+	-	1)CARE A2+ (05-Oct-21)	1)CARE A2+ (03-Aug-20)	1)CARE A2+ (05-Apr-19)
3	Fund-based - LT-Cash credit	LT	70.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (03-Aug-20)	1)CARE A-; Stable (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Soumya Dasgupta
Phone: +91-22-6754 3456
E-mail: soumya.dasgupta@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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