Oriental Rail Infrastructure Limited (Revised)

October 10, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	18.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**50.00 (₹ Fifty Crore Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings to the bank facilities of Oriental Rail Infrastructure Limited (ORIL) (Formerly known as Oriental Veneer Products Limited (OVPL)) factors in experienced and resourceful promoters, established track record of operations with diversified product profile, strong and improved order book with reputed clientele and completion & execution of enhancement of Bogie manufacturing capacity. The ratings also factor in decline in total operating income, moderation in debt coverage indicator albeit improvement in capital structure. The above strengths are however, tempered by ORIL's presence in highly fragmented industry with tender based nature of operations, susceptibility to volatility in raw material prices and working capital intensive nature of operations.

Rating sensitivities

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

- Increase in scale of operations with total operating income exceeding Rs.500 crore on a sustained basis
- Reduction in working capital cycle below 120 days on a sustained basis

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

- Stretched receivables/inventory resulting into working capital cycle going beyond 230 days on a sustainable basis
- Decrease in scale of operations with total operating income to below Rs.200 crore on a sustained basis
- Any large debt funded capex thereby increasing the overall gearing over 1.5 times on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Established track record of operations with diversified product profile: Established in 1991, ORIL has track record of almost about three decades in supplying various products to Indian railways. Company is a Preferred Part I vendor of RDSO, Indian railways and caters to the demand of railways directly as well as indirectly (supply to the other suppliers of Indian railways). Over the years, Group has expanded its products portfolio from compreg boards and Recorn to manufacturing of seats and berths. Majority of income is coming from Seats & Berths for ORIL. Group had further, expanded its products portfolio through manufacturing of coupler body and bogies in 2014 through OFPL and had also forayed into manufacturing of railway wagons during FY19, thereby expanding its product offering to Indian Railways by leveraging existing relationship.

Strong and improved Order book with reputed clientele: Order book of ORIL (consolidated) improved significantly with order book to sales ratio of 10.22x of FY22, providing revenue visibility in medium to long term. Majority of orders are directly from various subsidiaries of Indian Railways. Balance order book is mainly from companies like Braithwaite & Company Ltd, Jindal Rail Infrastructure Ltd. (rated CARE BBB- (CE) / CARE A2 (CE)), Acme India, Hindustan Fibre Glass Works, etc. which in turn caters to the demand of Indian Railways. Heavy reliance on Indian Railways links the company's growth prospects to the demand from the same.

Enhancement of Bogie manufacturing capacity: The Enhancement of Bogie manufacturing capacity has been completed and the commercial operations of the same has commenced from October 2021. The capacity increased from 830 MT per month to 1660 MT per month. The cost of the project was funded through equity, debt and internal accruals. Around 800 bogies will be manufactured per month and up to 9600 bogies a year. This is expected to result in improved scale of operation for the company.

Improvement in capital structure as on March 31, 2022; albeit; some moderation in debt coverage indicators: On consolidated basis, capital structure of the company remained moderately leveraged with OL/NW at 1.18x as on March 31, 2022 (as compared to 1.17x as on March 31, 2021). The overall gearing remained stable at 0.83x as on March 31, 2022, as against 0.82x as on March 31, 2021, on account of scheduled debt payment and reduced working capital bank borrowings. Further, out of the total debt, interest free loans from related parties' amounts to 42.62% of the total debt. Debt coverage indicators of ORIL deteriorated to TD/GCA of 8.54x (FY21: 7.97x) primarily due to marginally thin increase in GCA from Rs.20.72 crore in FY21 to Rs.20.84 crore in FY22. Interest coverage ratio improved in FY22 to 5.15x (FY21: 4.11x), and, continued to remain at comfortable levels.

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

Experienced and resourceful promoter:
ORIL is promoted by Mr. Saleh Mithiborwala (chairman & CFO) with other family members' viz. Mr. Vali Mithiborwala (Director) and Mr. Karim Mithiborwala (Managing Director) who have long standing experience of about three decades in supplying the various products viz. coaches and wagons to Indian Railways. Mr. Saleh Mithiborwala oversees the tendering process and financial aspects of the group, whereas Mr. Karim and Mr. Vali oversee the manufacturing activity. Further promoters are assisted by qualified and experienced management team. Also, promoter and promoter group companies continue to support ORIL by way of interest free unsecured loans of Rs.74.8 crore with Rs.50 crore of it being subordinated.
Decline Total Operating Income (TOI) albeit Improvement in profitability margins during FY22:
On Consolidated level, TOI declined by 22% in FY22 compared to a year earlier due to delay in scheduled delivery of product from Indian Railways. ORIL on a consolidated basis reported a TOI of Rs.172.70 crore in FY22 (PY: Rs. 220.22 crore in 21). This was primarily due to ~50% decrease in TOI of OFPL (Oriental Foundry Private Limited) which is into manufacturing of wagons and bogies. The TOI of OFPL stood at Rs.63.59 crore in FY22 (compared to Rs. 127.56 crore in FY21). The profitability margin of ORIL on a consolidated basis increased by 326 bps to 17.58% in FY22 from 14.32% in FY21 on account of better product mix (the share of Bogie Manufacturing which yields a higher margin was higher compared to previous year).
Going forward the TOI is expected to increase on the backdrop of existing orderbook position as well as inflow of new orders from Indian Railways.

Key rating weaknesses
Susceptibility of profitability to volatility in raw material prices: ORIL's product mix mainly includes seats, berths, compreg boards wherein the major raw materials are wood, rexene, cloth, foams, recron and various other solvents. Major raw material is supplied inhouse such as, company manufactures rexene and foam useful in manufacturing of seats. Other raw material consumed for manufacturing of seats includes veneer, which is formed from timber and company procures timber from local market. Its profitability is susceptible to fluctuations in the prices of wood as it serves as the main raw material for manufacturing of veneers, particle boards, plywood and compreg boards. For wagons, bogies and coupler body, major raw material is Steel or steel scrap which is procured from local market whose prices are highly volatile in nature. However, the company has a price variation clause inbuilt for key raw material i.e., Steel and Wheels if procured from Indian Railways, thus reducing the price volatility to that extant. Taking into consideration the high steel prices, the recent bids for wagons manufacturing were made at high price, reducing price volatility to that extent.
Working Capital intensive nature of operations: The nature of business of ORIL entails considerable dependence on working capital requirements both in the form of fund based and non-fund-based borrowings due to relatively longer processing period necessitating high inventory holding period and elongated collection period.
The working capital cycle had increased from 211 days in FY21 to 299 days in FY22. The deterioration in working capital cycle was due to increase in Inventory, to cater to large orders to be supplied in FY23..
Present in fragmented industry with tender-based nature of operations: Railway ancillary products space is dominated by many unorganized entities resulting in high level of competition in the industry except for Wagons division wherein competition is relatively lower due to stringent norms of RDSO to get product approvals. Wagons manufacturing industry is dominated by few major players who have benefitted from economies of scale, leaving ORIL susceptible to competition as it is a recent entrant in the product category.
The procedure of procurement of orders from Indian Railways is tender based. Any delay in tender results in non-achievability of projected sales which hampers the overall performance of company. Moreover, there remains a risk as to continuous receipt of orders due to tender based nature of operations.

Liquidity: Adequate
ORIL on a consolidated basis reported a GCA of Rs.20.84 crore in FY22. Current ratio and quick ratio remained moderate at 1.67xand 0.76x respectively as on March 31, 2022. The average fund-based limit utilization of ORIL and OFPL stood moderate at 70.13% and 45.46% respectively for the past 12 months ending July 2022. Further, Company has repayment obligation of Rs.6.82 crore in next 4 quarters, while the company's unencumbered cash position was at Rs.7.11 crore as on March 31, 2022, as against Rs.10 crore as on March 31, 2021.

Analytical approach: Consolidated
CARE has analyzed the consolidated financials for arriving at the ratings of Oriental Rail Infrastructure Limited (ORIL) comprising of ORIL and its 100% subsidiary Oriental Foundry Private Limited (OFPL) as both have operational and financial linkages along with common management. Both cater to the demand of various products for Indian Railways. There is an explicit support by ORIL to OFPL in the form of corporate guarantee for the full sanctioned bank facilities extended by SVC Bank and SBI Bank to OFPL.

Applicable criteria
CARE's Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Notching by factoring linkages – Parent Sub JV Group
Rating Methodology: Consolidation

About the company

Oriental Rail Infrastructure Limited (ORIL) formerly known as Oriental Veneer Private Limited (OVPL) was incorporated as Private Limited firm on March 08, 1991, by Mumbai based Mithiborwala group. The company was later converted into a Public Limited Company, Limited by Shares on July 03, 1995, listed on BSE. The Company is engaged in the manufacturing and selling of all type of recorn, seat & berth, compreg boards, retention tanks and, also company is engaged in trading of timber woods and all its products. The company caters to domestic markets. ORIL is one of the Preferred Part I vendor of Indian Railways, the major consumer of ORIL's products. All the ORIL's products supplied to Indian Railways are approved by the Research Designs Standards Organization (RDSO), the sole vendor approving body for the consumer organization. The products are also certified by RITES (erstwhile Rail Technical Economic Service), the sole inspecting authority for ensuring quality and clearance of all products for supplying to Indian Railways.
ORIL has a wholly owned subsidiary under the name of **Oriental Foundry Private Limited (OFPL)** incorporated on 25th July 2014, is a wholly owned subsidiary of Oriental Rail Infrastructure Limited (ORIL). The company is engaged into manufacturing of bogies, coupler and wagons for Indian railways and many other industries. OFPL has 2 separate units for manufacturing of its product line. OFPL Unit I manufacture Bogie and OFPL Unit II manufacture wagon. OFPL unit-I has manufacturing capacity of 830 MT per month while, unit-II has manufacturing capacity of 1000 wagons per annum. During FY20 and FY21, the company was in process of expanding its capacity of OFPL unit-I from 830MT to 1660MT. The commercial operations on the said expansion have commenced from October 2021. The manufacturing facilities for the products have been set up across two locations in Gujrat: Village Chopvadva & Village Lakadia. Both the manufacturing plants have been approved by Indian Railway's Research Designs & Standards Organization (RDSO).

Brief Financials (₹ crore) (Consolidated)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(P)
Total operating income	220.22	172.70	40.69
PBILDT	31.53	30.35	10.30
PAT	15.42	15.59	3.72
Overall gearing (times)	0.82	0.83	NA
Interest coverage (times)	3.85	4.84	3.01

A: Audited; NA: Not available; P: Provisional

Brief Financials (₹ crore) (Standalone)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(P)
Total operating income	97.95	114.79	31.35
PBILDT	17.73	20.39	NA
PAT	10.70	13.06	NA
Overall gearing (times)	0.24	0.41	NA
Interest coverage (times)	8.20	11.74	NA

A: Audited; NA: Not available; P: Provisional

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

Complexity level of various facilities rated for this company: Annexure-4

Annexure-1: Details of facilities

Name of the Facility	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
Fund-based - LT-Cash Credit		-	-	-	32.00	CARE BBB-; Stable
Fund-based - ST-Stand by Packing Credit		-	-	-	2.00	CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	16.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the 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	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (22-Sep-21)	1)CARE BBB-; Stable (27-Oct-20) 2)CARE BBB-; Stable (07-Oct-20)	-
2	Fund-based - ST-Stand by Packing Credit	ST	2.00	CARE A3	-	1)CARE A3 (22-Sep-21)	1)CARE A3 (27-Oct-20) 2)CARE A3 (07-Oct-20)	-
3	Non-fund-based - ST-Bank Guarantee	ST	16.00	CARE A3	-	1)CARE A3 (22-Sep-21)	1)CARE A3 (27-Oct-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities

Financial covenants	Detailed Explanation
Subordination	Unsecured loans will not be withdrawn from the business during currency of advance and without prior approval of the bank.

Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facility	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Stand by Packing Credit	Simple
3	Non-fund-based - ST-Bank Guarantee	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 facilities: 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.

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About us:
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