

Oriental Rail Infrastructure Limited (Revised)

April 25, 2023

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	32.00	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Long Term Bank Facilities	2.00	CARE BBB-; Negative	Revised from CARE A3 ; Negative outlook assigned
Short Term Bank Facilities	16.00	CARE A3	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in outlook assigned to the long term bank facilities of Oriental Rail Infrastructure Limited (ORIL) (Formerly known as Oriental Veneer Products Limited (OVPL)) factors in substantial decline in PBILDT margins resulting in to losses in Q4FY23 and deterioration in capital structure as on March 31, 2023 led by increase in total debt.

The ratings continue to factor in experienced and resourceful promoters, established track record of operations with diversified product profile, strong order book with reputed clientele and completion & execution of enhancement of Bogie manufacturing capacity. 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: Factors likely to lead to rating actions

Positive factors

- 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

- Continued decline in PBILDT margin resulting in continued losses in Q1FY24
- 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

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 to OFPL.

Outlook: Negative

The negative outlook reflects ORIL's subdued performance on a sequential quarter basis resulting in to losses at net level in Q4FY23, despite increase in scale of operation.

The outlook may be revised to stable in case of better than envisaged improvement in PBILDT margins along with improved scale of operations on a sustained basis.

Detailed description of the key rating drivers:

Key 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.

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

Strong and improved Order book with reputed clientele

Order book of ORIL (consolidated) improved significantly with order book to sales ratio of 4.62x of FY23, 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- / CARE A3), 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.

Moderation capital structure and debt coverage indicators

On consolidated basis, capital structure of the company remained leveraged with TOL/NW at 1.18x as on March 31, 2022 (as compared to 1.17x as on March 31, 2021). Further, the TOL/TNW deteriorated to 2.03x as on March 31, 2023, marked by higher working capital borrowing in line with increase in scale of operation.

The overall gearing deteriorated to 1.36x as on March 31, 2023 as against 0.83x as on March 31, 2022 on account of increase in working capital bank borrowings in line with increase in TOI coupled with increase in unsecured loans from promoters. The unsecured loan from promoters increased to Rs.82.14 crore as on March 31, 2023 as compared to Rs.75.83 crore as on March 31, 2022. Debt coverage indicators of ORIL on a consolidated basis deteriorated to TD/GCA of 21.42x (FY22: 6.14x) primarily due to deterioration in profitability resulting in thin GCA of Rs. 10.01 crore in FY23 as against Rs.20.84 crore in FY22. Interest coverage ratio deteriorated in FY23 to 1.69x (FY22: 4.84x), primarily on account of higher interest expense led by increased working capital requirement.

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.82.14 crore with Rs.50 crore of it being subordinated.

Significant Improvement in Total Operating Income (TOI) albeit deterioration in profitability margins during FY23

On Consolidated level, TOI (Abridged) increased by over 89.48% in FY23 to Rs.327.22 crore as against Rs.172.70 crore in FY22. The improvement in TOI was on account of improved execution of orders in OFPL. The TOI of OFPL significantly improved in FY23 by over 211.12% to Rs.197.84 crore as against Rs.63.59 crore in FY marked by improved order execution. However, the PBILDT margin of ORIL on a consolidated basis decreased by 928 bps to 8.30% in FY23 from 17.58% in FY22 on account of execution of seats and birth orders during Q3FY23 and Q4FY23, wherein the raw material prices had significantly increased. In view of large ongoing orders under execution with inbuilt price variation clause coupled with enhanced capacity in the recent past, the profitability margins are expected to improve going forward. Hence, the ability of the company to improve its margins from Q4FY23 levels remains critical from the credit perspective and hence a key monitorable.

Key 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 used 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 extent. 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.

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.10.01 crore in FY23 as against Rs.20.84 crore in FY22. The average fund-based limit utilization of ORIL and OFPL stood moderate at 80-85% respectively for the past 12 months ending March 31, 2023. Further, Company has repayment obligation of Rs.7.10 crore for FY24, while the company's consolidated unencumbered cash position was at Rs.7.33 crore as on March 31, 2023, as against Rs.7.11 crore as on March 31, 2022.

Applicable criteria

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Notching by factoring linkages – Parent Sub JV Group](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

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 Gujarat: Village Chopvadra & Village Lakadia. Both the manufacturing plants have been approved by Indian Railway's Research Designs & Standards Organization (RDSO).

Consolidated Financials (ORIL):

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	220.22	172.70	327.22
PBILDT	31.53	30.35	27.16
PAT	15.42	15.59	3.19
Overall gearing (times)	0.82	0.83	1.36
Interest coverage (times)	3.85	4.84	1.69

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Standalone Financials (ORIL):

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	97.95	114.79	136.47
PBILDT	17.73	20.39	8.58
PAT	10.70	13.06	2.30
Overall gearing (times)	0.24	0.41	0.51
Interest coverage (times)	8.20	11.74	1.98

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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-; Negative
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE BBB-; Negative
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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (10-Oct-22)	1)CARE BBB-; Stable (22-Sep-21)	1)CARE BBB-; Stable (27-Oct-20) 2)CARE BBB-; Stable

								(07-Oct-20)
2	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB-; Negative	-	1)CARE A3 (10-Oct-22)	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 (10-Oct-22)	1)CARE A3 (22-Sep-21)	1)CARE A3 (27-Oct-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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.

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