Orient Ceratech Limited

September 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	60.00 (Reduced from 70.00)	CARE A-; Negative / CARE A2+	Revised from CARE A-; Stable
Short Term Bank Facilities	14.40	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the outlook of Orient Ceratech Limited (OCL) is on account of significant decline in the total operating income (TOI) during Q1FY24 as compared with Q1FY23 results along with high working capital cycle.

The reaffirmation of the ratings to the bank facilities of OCL continues to derive strength from the established track records of operations and competitive market position of the company in the abrasives grain industry. The ratings also factor in the improvement in the operational performance in FY23 driven by increase in revenue contribution from the proppant. The ratings continue to derive strength from the operational efficiency on account of captive mines and power plant along with comfortable capital structure and strong debt coverage indicators. The rating strengths are, however, tempered by moderate scale of operations, weak credit profile of its group entity, susceptibility due to unavailability of raw material, working capital intensive nature of operations, and cyclical nature of the end-user industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in operating cycle to 120 days leading to improved liquidity position of the company.
- Increase in scale of operations over Rs. 600 crores.

Negative factors

- Deterioration in PBILDT margins below 8.50% for a sustained period.
- Any kind of significant support from the company to its group entities or a significant increase in the dividend payout ratio.
- Higher-than-expected debt-funded capex and investments in subsidiary leading to deterioration of overall adjusted gearing above 0.5x.

Analytical approach: Consolidated

Due to strategic and operational linkages between (Orient Advanced Materials Private Limited [OAMPL]- 100% subsidiary of OCL) OAMPL and OCL, consolidated approach has been followed from FY22 onwards.

Outlook: Negative

CARE Ratings Limited (CARE Ratings) has revised the outlook to negative from stable as per the expectation that with a weak Q1FY24 operational performance, OCL is likely to report lower operating income in entire FY24.

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

Detailed description of the key rating drivers:

Key strengths

Acceptability of "Proppant" drives the revenue in FY23; maintaining growth momentum in FY24 is a key monitorable: The TOI of the company has increased by around 13% in FY23, mainly on account of increased sale contribution from its high-margin product proppant (more than 20% PBILDT margin). The TOI of OCL improved from ₹271.99 crore in FY22 to TOI of ₹308.34 crore in FY23. Also, OCL's sales revenue from proppant increased to ₹88 crore in FY23 from ₹57 crore in FY22. Furthermore, its PBILDT margin also stood improved at around 10.31% during FY23 as compared with that of 7.39% in FY22. However, the company has reported decline in TOI by 21% during Q1FY24 as compared with Q1FY23 results followed by moderate decline in profit before interest, lease rentals, depreciation and taxation (PBIDLT) margins to 9.37% as compared with margins of FY23 level. Such decline in the operational performance during Q1FY24 was attributable to suspended operations during the month of June 2023 in its plants located at Bhuj and Porbandar due to cyclone in Gujarat.

Operational efficiency on account of captive bauxite mines and power plants: The major raw materials used by OCL are raw bauxite, and calcined alumina (for white fused alumina); and the prices of the raw materials are subject to market dynamics. Furthermore, manufacturing of abrasive grains is a power-intensive activity. OCL owns captive mines of raw bauxite at Bhatia, Jamnagar and Bhuj in Gujarat. Furthermore, the company also sources raw bauxite from open market based on cost efficiency parameters and depending on the availability and quality of plant grade raw bauxite availed on mining. OCL has its own captive power plant (coal based, with total power generation capacity of 9 MW, at Porbandar. Additionally, the company owns a digital generator set of 9 MW for contingencies (which is operated on furnace oil). The company enjoys cost efficiency on account of captive power plants.

Experienced promoters and established track record of the company: OCL 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) Proppant and power generation. In July 2015, OCL'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 OCL's day-to-day operations are managed by a team of qualified and experienced managers. Going forward also OCL is expected to benefit from the experience of its promotors and managers.

Comfortable capital structure and debt coverage indictors: The total debt of the company as on March 31, 2023, comprises working capital bank borrowings and bank term loan. The overall gearing remained range bound from 0.05x-0.15x from FY21-23. As on March 31, 2023, the overall gearing of the company stood improved at around 0.06x mainly due to reduced working capital borrowings and accretion in its net worth position. Also going forward in the mid-term, the overall gearing is expected to remain at comfortable level despite the capex plan in place for increase in the capacity for proppant in FY24. The management plans to incur such capex of around ₹50 crore to be funded by term debt of ₹25 crore and balance from internal accruals. The expected DCCO is to happen by March 31, 2024. Furthermore, its total debt/PBILDT and total debt/cash flow from operations improved to 0.57x and 0.33x in FY23. OCL's interest coverage indicators improved from 5.8x in FY22 to 7.3x in FY23, mainly on account of improved PBILDT in FY23 due to improved scale of operations backed by increased sales contribution from its high-margin product proppant. The PBILDT interest coverage indictors remains healthy at 9.47x in Q1FY24. Going forward in the near mid-term with the expected capex in FY24, its capital structure will continue to remain comfortable with satisfactory debt coverage.

Key weaknesses

Currently, the company undertakes manufacturing of calcined bauxite, fused aluminium oxide abrasive grains, refractory castables and monolithics. Aluminium oxide, proppant and calcinated products are major contributors in the operating income along with some part of the income coming from monolithics and wind power division. Though OCL reported TOI of ₹302.20 crore for FY23, 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 days improved to 83 days in FY23 against 101 days in FY22. The operating cycle improved significantly to 132 days in FY23 against 172 days in FY22, mainly on account of optimisation of processes, such as order processing, production scheduling, inventory management, which has resulted into improved cash conversion cycle. The average operating cycle for the company is around 177 days for last five years. The average utilisation in working capital fund-based limits is around 54% (P.Y - 49%) for 12-month period ended June 2023.

Cyclical nature of end-user industries: The abrasives grains division manufactures calcined bauxite and fused aluminium oxide abrasive grains. These products are used in the manufacture of refractories, grinding wheels, and coated abrasives. The refractory monolithic division manufactures refractory castable and monolithic. These products have nature of capital goods and major customers for these products are companies in the steel and cement sector. Thus, the demand for OCL'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 demand of steel and cement is driven by government spending on infrastructure development, growth in the real estate sector and demand from other steel-consuming sectors, such as automobiles, consumer durables, etc. 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 OCL to the economic cycles.

Risk of delay in completion of its ongoing capex : OCL is currently considering capex for capacity expansion of proppant. The said capex of ₹50 crore would be towards acquisition of land and towards purchase of machinery. It would be funded by bank term debt of ₹25 crore and balance from internal accruals. The expected date of commencement of commercial operations would happen by March 31, 2024. Going forward, CARE Ratings notes that timely execution of the capex is crucial from the credit perspective and any change in the size of capex or funding pattern having an adverse impact on the solvency, debt coverage indicators or liquidity is a key rating sensitivity.

Weak credit profile of its group entity: BML continues to hold around 32% shareholding in OCL as on March 31, 2023. The financial risk profile of BML remains weak with substantial decline in the scale of operations from ₹284 crore in FY21 to ₹85 crore in FY23 and profit after tax (PAT) level losses of around 12% in FY22. CARE Ratings would continue to monitor any kind of significant support from the company to its group entities or a significant increase in the dividend payout ratio.

Liquidity: Adequate

The liquidity of the company is adequate marked by comfortable gross cash accruals (GCA) against its term debt repayments. Furthermore, the average unutilised fund-based limits for past 12 months ending June 2023 was around 46% of the sanctioned limits. The company has unencumbered cash and bank balances of around ₹30 crore as on August 07, 2023. With a gearing of 0.06x as on March 31, 2023, OCL has sufficient gearing headroom, to raise additional debt if required.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	The company while manufacturing its product release particulate in the environment which caused dust pollution thereby reducing air quality in the nearby area. OCL in order to mitigate this risk has installed dust filters at its manufacturing facilities.
Social	Majority of the employees of the company are on third-party payroll. OCL has around 100-110 employees on the company's payroll at its Porbandar plant.
Governance	As on date, the company's total strength of the board member is seven including three Independent Directors.

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 and industry

Incorporated in 1971, Orient Ceratech Limited (OCL)- (erstwhile name Orient Abrasives Limited) primarily operates in two segments, namely fused aluminium oxide grains (including calcined products, monolithic) and power generation. During FY23 also Bombay Minerals Limited (BML; already holding 32% equity stake in OCL as on March 31, 2023) along with Cura Global Holdings Limited (holding around 24% as on March 31, 2023, 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.) continues to hold majority equity stake in OCL. BML and CGHL acquired shares through open offer taking the share of BML to ~ 32% and CGHL to 24% as on June 30, 2021.

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Brief Consolidated Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	271.99	308.34	72.81
PBILDT	20.11	31.80	6.82
PAT	6.86	14.21	4.23
Overall gearing (times)	0.15	0.06	N/A
Interest coverage (times)	5.80	4.20	9.47

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available', N/A: Not 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 instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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
Fund-based - LT/ ST-Working capital limits		-	-	-	60.00	CARE A-; Negative / CARE A2+
Non-fund-based-Short term		-	-	-	14.40	CARE A2+

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 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	Term loan-Long term	LT	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (03-Aug-20)
2	Non-fund-based-Short term	ST	14.40	CARE A2+	-	1)CARE A2+ (07-Oct-22)	1)CARE A2+ (05-Oct-21)	1)CARE A2+ (03-Aug-20)
3	Fund-based - LT/ ST-Working capital limits	LT/ST*	60.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable (07-Oct-22)	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (03-Aug-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working capital limits	Simple
2	Non-fund-based-Short term	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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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