Oriental Rail Infrastructure Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	47.60 (Enhanced from 34.00)	CARE BBB-; Negative	Reaffirmed
Short-term bank facilities	17.40 (Enhanced from 16.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to long-term and short-term bank facilities of Oriental Rail Infrastructure Limited (ORIL) (formerly known as Oriental Veneer Products Limited [OVPL]) factors in its experienced and resourceful promoters. The ratings also factor in the commencement of operations of the enhanced Bogie and Wagons manufacturing capacity with approval from Research Design & Standard Organization (RDSO) for enhanced capacity, as well as its diversified product profile and strong order book with reputed clientele.

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 the scale of operations with total operating income (TOI) exceeding ₹500 crore on a sustained basis.
- Reduction in the working capital cycle below 120 days on a sustained basis.

Negative factors

- Decline in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin below 7% on a sustained basis.
- Stretched receivables/inventory resulting into working capital cycle going beyond 230 days on a sustainable basis.
- Decrease in the scale of operations with TOI to below ₹200 crore on a sustained basis.
- Any large debt-funded capex thereby increasing the overall gearing over 1.5x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has analysed the consolidated financials for arriving at the ratings of ORIL comprising 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 also an explicit support by ORIL to OFPL in the form of corporate guarantee for the full sanctioned bank facilities extended by SVC Bank, Saraswat Bank, Axis Bank, ICICI Bank to OFPL.

Outlook: Negative

The continuation of negative outlook on the long-term bank facilities reflects ORIL's subdued performance on a sequential quarter basis resulting into deterioration in profitability margins for the full year FY23. Although there has been improvement in profitability of ORIL on a consolidated basis in Q1FY24, however, the sustained improvement in profitability remains to be seen.

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 a 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, the Group has expanded its products portfolio from compreg boards and recron to manufacturing of seats and berths. Majority of the income is coming from Seats & Berths for ORIL. The

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

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 order book with reputed clientele

The combined orderbook as on date is at ₹1,378.71 crore (ORIL- ₹106.87 crore and OFPL- ₹1,271.84 crore) indicating a strong combined orderbook to sales ratio of 4.21x; thus, providing revenue visibility in medium to long term. However, timely execution of orders without cost overrun remain critical from credit perspective and a key monitorable.

Majority of orders are directly from various subsidiaries of Indian Railways. Balance order book is mainly from companies like Braithwaite & Company Limited, Jindal Rail Infrastructure Limited, 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.

Experienced and resourceful promoters

ORIL is promoted by Saleh Mithiborwala (chairman & CFO) with other family members, viz., Vali Mithiborwala (Director) and 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. Saleh Mithiborwala oversees the tendering process and financial aspects of the group, whereas Karim Mithiborwala and Vali Mithiborwala oversee the maintenance and manufacturing activity, respectively. Furthermore, the promoters are assisted by qualified and experienced management team. Also, promoter and promoter group companies continue to support OFPL by way of interest free unsecured loans of ₹82.14 crore with ₹75.83 crore of it being subordinated.

Moderation in profitability margins; albeit improvement in TOI during FY23, however, financial profile improved in Q1FY24

On consolidated level, TOI increased by 88% in FY23 compared with a year earlier due to expedition in scheduled delivery of product from Indian Railways. ORIL, on a consolidated basis, reported a TOI of ₹325.25 crore in FY23 (PY: ₹172.20 crore in FY22). This was primarily due to around 212% increase in TOI of OFPL which is into manufacturing of wagons and bogies. The TOI of OFPL stood at ₹197.98 crore in FY23 (compared with ₹63.44 crore in FY22). The profitability margin of ORIL on a consolidated basis decreased by 983 bps to 7.74% in FY23 from 17.58% in FY22 on account of sharp increase in input prices. The profit after tax (PAT) margins, on consolidated basis, declined by 805 bps to 0.98% in FY23 from 9.03% in FY22 on account of lower PBILDT margins and sharp increase in finance cost as the total debt has increased in line with scale of operations.

During Q1FY24 ORIL reported TOI of ₹93.37 crore on consolidated basis in Q1FY24 as compared with TOI of ₹40.69 crore in Q1FY23 indicating substantial improvement of around 130% YoY basis. Furthermore, PBILDT in absolute terms stood at around ₹13.91 crore in Q1FY24 (PY: ₹10.30 crore) and PAT stood at around ₹5.43 crore (PY: ₹3.72 crore and full year PAT of ₹3.19 crore), in view of stable input prices coupled with approval from RDSO for production of enhanced capacity in OFPL received on September 26, 2023, the improvement scale and margins are likely to sustain.

Key weaknesses

Moderation in capital structure and debt coverage indicators as on March 31, 2023

On a consolidated basis, capital structure of the company remained moderately leveraged marked by the total outside liabilities (TOL)/total net worth (TNW) at 1.58x as on March 31, 2023 (as compared with 1.18x as on March 31, 2023). The overall gearing stood at 1.30x as on March 31, 2023, as against 0.83x as on March 31, 2023, on account of increased working capital bank borrowings to ₹153.46 crore as on March 31, 2023 compared with ₹60.10 crore as on March 31, 2022. The total debt as on March 31, 2023, increased to ₹237.80 crore against ₹127.90 crore as on March 31, 2022, led by increased working capital borrowings in line with increase in TOI, coupled with increase in unsecured loans from promoters. During FY23, the unsecured loan from promoters increased to ₹82.14 crore as on March 31, 2023, as compared with ₹75.83 crore as on March 31, 2022, in OFPL. Out of this ₹75.83 crore (PY: ₹50 crore, subordination) is subordinated, and the same has been treated as Quasi equity, thereby limiting the deterioration in overall capital structure of the company. Debt coverage indicators of ORIL on a consolidated basis deteriorated to TD/GCA of 23.33x (FY22: 6.14x) primarily due to deterioration in GCA from ₹20.84 crore in FY22 to ₹10.19 crore in FY23 along with substantial increase in debt. The interest coverage ratio deteriorated in FY23 to 1.57x (FY22: 4.84x), primarily due to higher interest expense led by increased working capital requirement.

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 scrap of steel 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. CARE Ratings notes that 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 improved from 299 days in FY22 to 223 days in FY23, however, remain elongated. The improvement in working capital cycle was due to improved collection and inventory days. Furthermore, the inventory and receivable continue to remain high owing to the inherent nature of business.

Liquidity: Adequate

The liquidity profile of the company remained adequate marked by moderate level of working capital limit utilisation and sufficient cushion in GCA as against scheduled repayment of term loan. The average of maximum fund-based limit utilisation of OFPL stood moderate at 75% for the past 9 months ending June 2023, ORIL reported a GCA of ₹10.19 crore in FY23 and is projected to report a GCA of over ₹31 crore in FY24 as against repayment obligation of ₹8.67 crore in FY24. OFPL's unencumbered cash balance was modest at ₹12.39 crore as on March 31, 2023.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
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 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 recron, seat & berth, compreg boards, retention tanks and, also the company is engaged in the 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 organisation. 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.

Oriental Foundry Private Limited (OFPL) incorporated on July 25, 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 two 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 1660 MT per month while, unit-II has manufacturing capacity of 2400 wagons per annum. 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).

Consolidated Financials (ORIL):

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	172.70	325.25	93.37
PBILDT	30.35	25.19	13.91
PAT	15.59	3.19	5.43
Overall gearing (times)	0.83	1.30	NA
Interest coverage (times)	4.84	1.57	NA

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Standalone financials (ORIL):

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	113.00	134.66	35.95
PBILDT	18.61	6.76	3.71
PAT	13.06	2.30	1.79
Overall gearing (times)	0.41	0.51	NA
Interest coverage (times)	10.71	1.57	NA

A: Audited UA: Unaudited NA: Not Available; 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 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-Cash credit		-	-	-	45.10	CARE BBB-; Negative
Fund-based - LT-Term loan		-	-	June 2030	2.50	CARE BBB-; Negative
Non-fund-based - ST-Bank guarantee		-	-	-	17.40	CARE A3

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	Fund-based - LT-Cash credit	LT	45.10	CARE BBB-; Negative	1)CARE BBB-; Negative (25-Apr-23)	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-Term loan	LT	2.50	CARE BBB-; Negative	1)CARE BBB-; Negative (25-Apr-23)	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	17.40	CARE A3	1)CARE A3 (25-Apr-23)	1)CARE A3 (10-Oct-22)	1)CARE A3 (22-Sep-21)	1)CARE A3 (27-Oct-20)

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-Cash credit	Simple
2	Fund-based - LT-Term loan	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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About us:
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