Orient Ceratech Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	11.33	CARE A-; Negative	Assigned
Long-term bank facilities	60.00	CARE A-; Negative	Reclassified LT / ST facilities to LT; LT rating reaffirmed
Short-term bank facilities	14.40	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings reaffirmation and continuation of the negative outlook on the long-term rating considers the stable operating and financial performance of Orient Ceratech Limited (OCL) marked by sustenance of revenue and profitability in FY24 and Q1 FY25 and risks emanating from uncertain demand conditions and elongation of working capital cycle due to sizeable inventory buildup, which could impact OCL's performance in the near-to-medium term. OCL reported a modest 3% Y-o-Y increase in income from operations to ~₹315 crore in FY24 but a substantial improvement in its profit before interest, lease rental, depreciation and taxation (PBILDT) margin by ~185 bps Y-o-Y to 11.56% in FY24 driven by increase in revenue contribution from its high margin products proppant and castable. However, its working capital cycle stretched to 165 days in FY24 (PY: 148 days) with a sizeable increase in average inventory to 125 days in FY24 (PY: 97 days) due to increased stocking of raw materials and finished quantities of proppant in anticipation of future orders. Continued stretch in working capital cycle translating in blocking of funds in inventory or receivable could materially impact OCL's liquidity position and capital structure and remains a key monitorable. Going forward, CARE Ratings expects OCL's revenue to grow by 8-10% per annum (p.a.) over the next 1-2 years with PBILDT margin sustaining above 10% p.a. driven by better capacity utilisation and benefits accruing from acquisition of the Chamotte plant from its Group entity.

Ratings continue to derive strength from OCL's operational efficiency considering its owned and Group's captive bauxite mines, which aid in raw material sourcing, and power plant and comfortable capital structure and healthy debt coverage indicators. Ratings also consider the company's established track records of operations and competitive market position in abrasives grain and refractory industry. However, rating strengths are constrained by its moderate scale of operations, susceptibility of operations to unavailability of its key raw materials, working capital intensive operations and cyclical end-user industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving operating cycle to 120 days leading to improving liquidity position of the company.
- Increasing scale of operations over ₹600 crores.

Negative factors

- Substantially declining revenue or deteriorating PBILDT margins below 8.50% on a sustained basis.
- Continuously stretching working capital cycle beyond 160 days.
- Significant support extended to its group entities or significantly increasing dividend payout ratio adversely impacting the capital structure or liquidity position.
- Higher-than-expected debt-funded capex and investments in subsidiary leading to deteriorating overall adjusted gearing above 0.5x.

Analytical approach: Consolidated

CARE Ratings has considered the consolidated financial statements of OCL and its wholly-owned subsidiaries - Orient Advanced Materials Private Limited (OAMPL) and Orient Advanced Material FZE- UAE (OAM-FZE) due to strategic and operational linkages among them, as detailed in Annexure – 6.

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

Outlook: Negative

The outlook continues to remain negative considering deterioration in its working capital cycle in FY24 due to significant increase in the inventory levels of its finished goods and raw material. The outlook may be revised to stable upon improvement in its inventory position translating in reduced working capital cycle days on a sustained basis.

Detailed description of key rating drivers:

Key strengths

Diversified product portfolio and established customer base

The company has a diversified product portfolio or refractory and abrasive products including calcined products, alumina fused products, chamotte, proppant and castable, among others. In FY24, its product mix was dominated by relatively high margin proppant and castable accounting for 29% and 20% of revenue, respectively, followed by calcined and alumina fused products with 10-15% revenue contribution each. Over the years, the company's product mix varied depending on market conditions, which enables it to serve a large set of customers. OCL benefits from established relations with key customers in iron, steel and oil and gas industries with a history of repeat orders from large customers which provides some revenue visibility. Its customer base is fairly diversified with top 10 customers accounting for 40-45% of revenue over the last three years.

Comfortable capital structure and debt coverage indictors

OCL's total debt comprised working capital bank borrowings of ~₹39 crore and outstanding term debt of ~₹19 crore as on March 31, 2024. Its overall gearing remained range bound from 0.06x - 0.21x from FY2022-2024. As on March 31, 2024, the company's overall gearing stood marginally deteriorated at ~ 0.21x mainly due to increased working capital borrowings and fresh term loan of ₹13.50 crore availed in FY2024 for acquisition of Chamotte plant. Further, total debt/PBILDT stood at 1.58x in FY2024 (PY: 0.49x). OCL's PBILDT/Interest coverage indictors improved from ~8x in FY2023 to ~9x in FY2024 mainly considering continued improvement in PBILDT in FY2024 driven by its improved scale of operations due to consistent increased sales contribution from its high margin product proppant. PBILDT interest coverage indictors remain healthy at ~6x in Q1FY2025. CARE Ratings expects OCL to continue maintaining a comfortable financial risk profile.

Operational efficiency considering captive bauxite mines and power plants

Major raw materials used by OCL are raw bauxite and calcined alumina (for white fused alumina); and the prices of raw materials are subject to market dynamics. Furthermore, manufacturing 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 its group entities and 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 considering captive power plants.

Experienced promoters and established track record of the company

OCL has an established track record in the abrasives industry of over 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 mining bauxite and manufacturing 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, OCL is expected to benefit from the experience of its promotors and managers.

Key weaknesses

Working capital intensive operations

The company's operations are working capital intensive. Operating cycle remained elongated to ~165 days in FY2024 against 148 days in FY2023 mainly due to increase in inventory of its major selling finished products and due to proactive procurement of raw materials in preparation for the monsoon season. Inventory days increased to 125 days in FY2024 against 97 days in FY2023.The company's average operating cycle has been ~161 days (FY2022-2024). Average utilisation in working capital fund-based limits was ~44% (PY: 54%) for 12 months period ended June 2024.

Relatively moderate scale of operations

The company undertakes manufacturing calcined bauxite, fused aluminium oxide abrasive grains, refractory castables monolithics and proppant. Proppant, castables, calcined products, fused products and chamotte are the major contributors in the operating income and some part of the income coming from monolithics and wind power division. Though OCL reported improved total operaing income of ₹313.37 crore for FY2024, the scale of operations continues to be relatively moderate against the size of the industry/peers.

Weak credit profile of its group entity

BML continues to hold ~32% shareholding in OCL as on June 30, 2024. BML's financial risk profile continues to remains weak with reported total operating income of ₹104.40 crore in FY23 and PBILDT margins of ~6% in FY2023. CARE Ratings would continue to monitor significant support from the company to its group entities or a significant increase in dividend payout.

Cyclical nature of end-user industries

Abrasives grains division manufactures calcined bauxite and fused aluminium oxide abrasive grains. These products are used in the manufacturing refractories, grinding wheels, and coated abrasives. 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. Further Proppant caters the demand from Oil and Gas Industry. Thus, the demand for OCL's products is closely linked to demand emanating from industries, such as steel, cement, and abrasives (which in turn depend on industrial growth in the economy). Demand of steel and cement is driven by government spending on infrastructure development, growth in real estate sector and demand from other steel-consuming sectors, such as automobiles, and consumer durables, among others. Steel and cement industry is sensitive to shifting business cycles including changes in general economy and seasonal changes in demand and supply conditions in market thus exposing OCL's performance to economic cycles.

Liquidity: Adequate

The company's liquidity is adequate marked by comfortable expected gross cash accruals (GCA) of ₹28-32 crore p.a. over the next 2-3 years against term debt repayments of ₹4-5 crore p.a. and maintenance capex requirements of ₹10-15 crore p.a. Furthermore, average unutilised fund-based limits for the last 12 months ending June 2024 was ~ 56% of the sanctioned limits, providing some buffer. With a gearing of 0.21x as on March 31, 2024, OCL has sufficient gearing headroom, to raise additional debt. OCL's current ratio stood at 2.18x and quick ratio at 1.15x as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

Incorporated in 1971, Orient Ceratech Limited (OCL; erstwhile Orient Abrasives Limited) is part of the Ashapura Group of Companies and operates in two segments, including fused aluminium oxide grains (including calcined products, monolithic) and power generation. It was setup in a technical collaboration with Karborundum, Bentueky, Czechoslovakia by the Rajgarhia Group of industries to manufacture calcined and fused alumina products. It offers a wide range of refractory and monolithic products for the iron and steel industry. It is headquartered in Mumbai with manufacturing facilities in Porbandar and Bhuj, Gujarat.

Consolidated Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY2025 (UA)
Total operating income	305.85	314.76	98.09
PBILDT	29.70	36.39	8.32
PAT	14.21	19.02	2.91
Overall gearing (times)	0.06	0.21	N/A
Interest coverage (times)	7.61	8.62	5.37

A: Audited UA: Unaudited; Note: these are latest available financial results; N/A: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	60.00	CARE A-; Negative
Non-fund-based-Short Term		-	-	-	14.40	CARE A2+
Term Loan-Long Term		-	-	Jan-2029	11.33	CARE A-; Negative

Annexure-2: Rating history for 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 2024-2025	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
1	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE A-; Stable (05-Oct-21)
2	Non-fund-based-Short Term	ST	14.40	CARE A2+	-	1)CARE A2+ (18-Sep-23)	1)CARE A2+ (07-Oct-22)	1)CARE A2+ (05-Oct-21)
3	Fund-based - LT-Working Capital Limits	LT	60.00	CARE A-; Negative	-	1)CARE A-; Negative / CARE A2+ (18-Sep-23)	1)CARE A-; Stable (07-Oct-22)	1)CARE A-; Stable (05-Oct-21)
4	Term Loan-Long Term	LT	11.33	CARE A-; Negative				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based-Short Term	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Orient Advanced Materials Private Limited [OAMPL]	Full	Wholly owned subsidiaries
2.	Orient Advanced Material FZE- UAE (OAM-FZE	Full	

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

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About us:
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