Oriental Rail Infrastructure Limited

November 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	45.40 (Reduced from 47.60)	CARE BBB; Stable	Upgraded from CARE BBB-; Negative
Short-term bank facilities	17.40	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to the of bank facilities of Oriental Rail Infrastructure Limited (ORIL) factors in strong revenue growth of 62% in FY24 (FY refers to April 01 to March 31) and improvement in profitability supported by utilisation of its enhanced capacity of Bogie and Wagons manufacturing and its strong order book position providing revenue visibility in medium term. Ratings revision also factors in augmentation of the company's net worth though preferential issue of equity share and warrants improving its capital structure and reducing reliance on bank borrowings for working capital purpose.

Ratings continue to derive strength from the company's experienced promoters, established track record with diversified product profile and reputed clientele.

However, ratings strengths are tempered by ORIL's working capital intensive operations, susceptibility to raw material price volatility and risk associated with tender-based operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations with total operating income (TOI) exceeding ₹750 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 14% on a sustained basis.
- Reduction in working capital cycle below 120 days on a sustained basis.

Negative factors

- Decreasing scale of operations with TOI to below ₹500 crore and declining in PBILDT margin below 10% on a sustained basis.
- Elongation in receivables/inventory resulting working capital cycle going beyond 230 days on a sustainable basis.
- Un-envisaged debt funded capex or higher working capital borrowings resulting in deterioration in overall gearing ratio to above 1x.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has analysed the consolidated financials for arriving at ORIL's ratings comprising ORIL and its 100% subsidiary, Oriental Foundry Private Limited (OFPL), as both have operational and financial linkages and common management. Both cater the demand of products for Indian Railways. There is also an explicit support by ORIL to OFPL in the form of corporate guarantee. Details of entities considered for consolidation as on March 31, 2024, are given in **Annexure-6**.

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that company shall continue to sustain its financial risk profile backed by healthy orderbook position and established relationship with reputed clientele.

Detailed description of key rating drivers:

Key strengths

Substantial improvement in scale of operations with strong orderbook; and improvement in profitability

On the consolidated level, TOI increased by 62% in FY24 compared to a year earlier due to improved capacity utilisation of enhanced capacity of wagons (1000 wagons per annum to 2400 wagons per annum added in FY23) resulting in expedition in scheduled delivery of product to Indian Railways. ORIL, on a consolidated basis, reported a TOI of ₹526.22 crore in FY24 (PY: ₹325.25 crore in FY23). Revenue growth is led by ~82.42% increase in OFPL's TOI. OFPL's TOI stood at ₹361.16 crore in FY24 compared to ₹197.98 crore in FY23.

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

ORIL's PBILDT margin on a consolidated basis improved by 493 bps to 12.68% in FY24 against 7.74% in FY23 considering softening of raw material prices and better absorption of fixed cost. Consequently, profit after tax (PAT) margins on consolidated basis also improved by 472 bps to 5.07% in FY24 from 0.98% in FY23.
On a consolidated basis, in H1FY25, TOI grew to ₹311 crore compared to ₹208.71 crore in H1FY24 backed by healthy order execution. PBILDT margin and PAT margin stood at 11.94% (PY:14.96%) and 5.25% (PY: 6.29%). The orderbook as on September 18, 2024, stood healthy at ₹1854.60 crore (ORIL- ₹101.32 crore and OFPL- ₹1753.48 crore) indicating a strong combined orderbook to sales ratio of 3.52x basis FY24 revenue thus, providing revenue visibility in medium term. Timely execution of orders without cost overrun remains critical from credit perspective and a key monitorable. Majority orders are directly from Indian Railways. Heavy reliance on Indian Railways links the company's growth prospects to the demand from this.

Augmentation of net worth base though preferential issue and improvement in capital structure and debt coverage indicators
The company's net worth increased to ₹349.71 crore (PY: ₹183.53 crore) including unsecured loans from promoter, treated as quasi equity, of ₹63.18 crore (reduced from ₹75.83 crore). The augmentation was a result of preferential issue and accretion of profits in FY24. ORIL has raised funds though preferential issue of equity shares and warrants aggregating to ₹212.20 crore in Q4FY24 of which ₹148.82 crore was raised till March 31, 2024, and balance ₹42.56 crore of warrants amount is yet to be called. The key object is to reduce term debt and meeting working capital requirements at ORIL and/or its subsidiary level.
On consolidated basis, the company's capital structure improved marked by overall gearing of 0.66x as on March 31, 2024, compared to 1.30x as on March 31, 2023. Total outside liability to total net worth (TOL/TNW) had also improved to 0.83x as on March 31, 2024 (compared to 1.58x as on March 31, 2023). Going forward, same is expected to remain comfortable with planned reduction in term debt and working capital requirement to be partly funded from issue proceeds per objects of the issue and no major debt funded capex in the near-to-medium term.
ORIL's debt coverage indicators (consolidated) basis has also improved marked by total debt to gross cash accruals (TD/GCA) of 5.86x as on March 31, 2024 (FY23: 23.33x) and interest coverage of 3.03x (FY23: 1.56x) primarily due to improvement in profitability.

Established track record of operations with diversified product profile
Established in 1991, ORIL has a track record of almost about three decades in supplying products to Indian Railways. The company is a Preferred Part I vendor of Research Designs Standards Organization (RDSO), Indian Railways and caters the demand of railways directly and 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 income comes from seats and berths for ORIL. The group had further expanded its products portfolio through manufacturing coupler body and bogies in 2014 through OFPL and had also forayed in manufacturing railway wagons in FY19, expanding its product offering to Indian Railways by leveraging existing relationship.

Experienced and resourceful promoters
ORIL is promoted by Saleh Mithiborwala (Chairman and CFO) with other family including Vali Mithiborwala (Director) and Karim Mithiborwala (Managing Director) who have long standing experience of over three decades in supplying the products including coaches and wagons to Indian Railways. Saleh Mithiborwala oversees the group's tendering process and financial aspects, whereas Karim and Vali oversee the manufacturing activity. Further promoters are assisted by qualified and experienced management team.
Furthermore, promoter and promoter group companies continue to support ORIL's by way of equity infusion and interest free unsecured loans. The promoter group has infused ₹63.38 crore in FY24 through subscribing share in Preferential Issue. The unsecured loans from promoters and promoter group as on March 31, 2024, was ₹63.18 crore.

Key weaknesses
Working capital intensive operations
ORIL's business entails considerable dependence on working capital requirements 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. Although the working capital cycle improved from 223 days in FY23 to 208 days in FY24, it remained elongated. Dispatch of wagons to takes place in a stipulated quantity. Till that time, it remains as inventory with the company resulting in higher inventory holding. In FY24, with better inventory management, the company has witnessed improvement in working capital cycle. Furthermore, the inventory and receivable continue to remain high owing to the inherent business. Going forward, the company's ability to optimise inventory holding remains the key monitorable.

Susceptibility of profitability to raw material price volatility
ORIL's product mix mainly includes seats, berths, compreg boards wherein the major raw materials are wood, rexene, cloth, foams, recron and 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. However, the company has a price variation clause inbuilt for key raw material, steel and wheels if procured from Indian Railways, thus reducing the price volatility to that extant. CARE Ratings notes considering the high steel and wheel prices, the recent bids for wagons manufacturing were made at high price, reducing price volatility to that extent.

Risk associated with tender based business
The company receives majority orders from Indian railways based on tender. Hence, the revenue depends on the company's ability to bid successfully for these tenders. Furthermore, there are players operating in the segment who compete for the orders. Profitability margins come under pressure because of this competitive and tender-based industry.

Liquidity: Adequate
Despite the high working capital intensity, ORIL's liquidity is adequate marked by moderate term debt repayment obligation against cash accruals and moderate working capital limit utilisation. ORIL on a consolidated basis reported a GCA of ₹39.28 crore in FY24. Further, the company has repayment obligation of ₹17.79 crore in FY25 against expected gross cash accrual in the range of ₹40-50 crore. Current ratio and quick ratio remained moderate at 1.85x and 1.01x, respectively as on March 31, 2024. Average fund-based limit utilisation of ORIL and OFPL stood moderate at 54.49% and 76.80%, respectively for the last 12 months ending October 2024. CFO stood negative at ₹16.76 crore, owing to increased receivable and inventory position as on March 31, 2024. The company's unencumbered cash position was at ₹72.69 crore as on March 31, 2024, due to funds received from issue proceeds.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
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
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 company on March 08, 1991, by Mumbai-based Mithiborwala family. The company was later converted into a Public Limited Company on July 03, 1995, and got listed on Bombay Stock Exchange. The company is engaged in manufacturing and selling recron, seat and berth, compreg boards, retention tanks and, also the company is engaged in the trading timber woods and all its products. The company caters 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 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 in manufacturing bogies, coupler and wagons for Indian Railways and few other entities. 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 and Village Lakadia. Both the manufacturing plants have been approved by RDSO.

Consolidated financials (ORIL):

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25(UA)
Total operating income	325.25	526.22	311.00
PBILDT	25.19	66.71	37.13
PAT	3.19	30.01	16.31
Overall gearing (times)	1.30	0.66	NA
Interest coverage (times)	1.57	3.03	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Standalone financials (ORIL):

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25(UA)
Total operating income	134.66	171.60	88.44
PBILDT	6.76	19.68	10.85
PAT	2.30	12.01	5.69
Overall gearing (times)	0.51	0.21	NA
Interest coverage (times)	1.57	4.43	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

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-Cash Credit		-	-	-	44.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	July-2029	1.40	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	17.40	CARE A3

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	Fund-based - LT-Cash Credit	LT	44.00	CARE BBB; Stable	-	1)CARE BBB-; Negative (09-Oct-23) 2)CARE BBB-; Negative (25-Apr-23)	1)CARE BBB-; Stable (10-Oct-22)	1)CARE BBB-; Stable (22-Sep-21)
2	Fund-based - LT-Term Loan	LT	1.40	CARE BBB; Stable	-	1)CARE BBB-; Negative (09-Oct-23) 2)CARE BBB-; Negative (25-Apr-23)	1)CARE A3 (10-Oct-22)	1)CARE A3 (22-Sep-21)
3	Non-fund-based - ST-Bank Guarantee	ST	17.40	CARE A3	-	1)CARE A3 (09-Oct-23) 2)CARE A3 (25-Apr-23)	1)CARE A3 (10-Oct-22)	1)CARE A3 (22-Sep-21)

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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	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	Oriental Foundry Private Limited	Full	Wholly Owned Subsidiary with strong linkages

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Akhil Goyal Director **CARE Ratings Limited** Phone: 022-67543590 E-mail: akhil.goyal@careedge.in Darshan Shah Assistant Director **CARE Ratings Limited** Phone: 022-67543408 E-mail: Darshan.shah@careedge.in Vatsalkumar Jain Analyst **CARE Ratings Limited** E-mail: Vatsal.Jain@careedge.in

About us:
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