Oriental Rail Infrastructure Limited
(Formerly Known as Oriental Veneer Products Limited)

September 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	18.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**50.00 (Rs. Fifty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to bank facilities of Oriental Rail Infrastructure Limited (ORIL) (Formerly known as Oriental Veneer Products Limited (OVPL)) factors in experienced and resourceful promoters, established track record of operations with diversified product profile, moderate order book with reputed clientele and enhancement of Bogie manufacturing capacity. The ratings also factor moderation in total operating income and profitability margins and some moderation in debt coverage indicator albeit improvement in capital structure.

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

Positive Factors (Factors that can lead to positive action/upgrade)

- 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 sustained basis

Negative Factors (Factors that can lead to negative action/downgrade)

- 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 below Rs.200 crore
- Any large debt funded capex thereby increasing the overall gearing over 1.5 times

Detailed description of the key rating drivers

Key Rating Strengths

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

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 Recron to manufacturing of seats and berths. 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 2019, thereby expanding its product offering to Indian Railways by leveraging existing relationship. Majority of income is coming from Seats & Berths for ORIL and from wagon for OFPL.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Moderate Order book with reputed clientele
Order book of ORIL (consolidated)remained moderate with order book to sales ratio of 1.18 times of FY21 providing revenue visibility. The company completed first development order of 500 wagons in February 2021 (as against a planned completion in October 2020, but delayed due to covid-19). Further, the company has bid for second development order with Indian Railways.
Majority of orders are directly from various subsidiaries of Indian Railway and balance order book is mainly from companies like Braithwaite & Company Limited, Jindal Rail Infrastructure Limited (rated CARE BBB-(CE)/ CARE A2(CE)), Acme India, Hindustan Fibre Glass Works, etc. which in-turn caters to the demand of Indian Railways.

Enhancement of Bogie manufacturing capacity
OFPL unit I manufacture bogie with current capacity of 830 MT per month and utilization at more than 70%. The company presently implementing the capacity enhancement project which would increase the capacity to 1660 MT per month. The cost of the project was funded through equity, debt and internal accruals. The project is expected to become operational from October 2021 (the company earlier projected operationalization of project from April 2021, however, delayed due to covid-19 led lockdown).

Moderation in total operating income and profitability margins during FY21:
On Consolidated level, TOI grew at compounded annual growth rate (CAGR) of 19% (FY18-FY21), however, declined by 17% in FY21 compared to a year earlier due to delay in scheduled delivery of product from Indian Railways coupled with shortage of skilled manpower on account of covid-19 led lockdown. OFPL contributed 57% of total ORIL TOI in FY21, this was primarily due to successful completion of wagon manufacturing order in February 2021.
The PBILDT margin of ORIL on a consolidated basis declined by 198 bps and PAT margin declined by 210 in FY21 compared to FY20. The decline was on account of higher expenses related to inventory and operations on a reduced revenue base. Going forward the TOI is expected to increase on the back drop of existing orderbook position as well as expected inflow of new orders from Indian Railways.

Improvement in capital structure as on March 31, 2021; albeit; some moderation in debt coverage indicators
On consolidated basis, capital structure of the company remained moderately leveraged marked by improvement in TOL/NW to 1.18x as on March 31, 2021 (as compared to 1.49x as on March 31, 2020).
The overall gearing improved to 0.82x as on March 31, 2021 as against 1.12x as on March 31, 2020 on account of scheduled debt payment and reduced working capital bank borrowings. Further, out of the total debt, interest free loans from promoters' accounts to 22% of the total debt. Debt coverage indicators of ORIL deteriorated to TD/GCA of 5.88x (FY20: 4.94x) primarily due to reduction in GCA. Interest coverage ratio declined in FY21 to 4.11x (FY20: 4.63x), however, continued to remain at comfortable levels.
Going forward with accretion of profits coupled with no major debt funded capex in the near to medium term, the overall gearing and leverage ratios are expected to improve going ahead.

Key Rating Weaknesses
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 168 days in FY20 to 211 days in FY21. The increase in working capital cycle was due to increased inventory period and increased collection period. Both were increased due to delayed supply schedule provided by Indian Railways on account of Covid-19.

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. Taking into consideration the high steel prices, the recent bids for wagons manufacturing were made at high price, reducing price volatility to that extent.

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 wagon manufacturing division wherein competition is relatively lower due to stringent norms of RDSO to get product approvals. Wagon 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 would result in non-achievability of projected sales which will hamper the overall performance of company. Moreover, there remains a risk as to continuous receipt of orders due to tender based nature of operations.

Liquidity Analysis: Adequate
ORIL on a consolidated basis reported a GCA of Rs.20.72 crore led by cash flow from operations of Rs.55.51 crore as on March 31, 2021. Current ratio and quick ratio remained moderate at 1.36xand 0.82x respectively as on March 31, 2020. The average fund-based limit utilization of ORIL and OFPL stood moderate at 61% and 74% respectively for the past 12 months ending July, 2021 and utilization during Jan - Mar decreases as company receives payment for its bill receivable from Indian Railways, specifically after budget allocation.
Further, company has repayment obligation of Rs.7.82 crore on a consolidated basis in next 4 quarters starting Q2FY22, while the company's unencumbered cash position was at Rs.10.01 crore as on March 31, 2021 as against Rs.3.68 crore as on March 31, 2020.

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 and SBI Bank to OFPL.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
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 converted to 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 engaged in trading of timber woods and all its products. The company caters to domestic markets. *ORIL is one of 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. 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 manufactures wagons. 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. As on August 31, 2021, large part of the expansion has been done and the trial run of the same is expected to commence by October 2021. 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).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	269.16	222.34
PBILDT	46.06	33.65
PAT	24.33	15.42
Overall gearing (times)	1.12	0.87
Interest coverage (times)	4.63	4.11

A: Audited

On consolidated basis, in Q1FY22, ORIL's TOI was Rs.27.70 crore as compared to Rs.32.39 crore in Q1FY21, the declined recorded on account of Covid -19 led to lockdown and shortage of skilled labour.

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 facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	32.00	CARE BBB-; Stable
Fund-based - ST-Stand by Packing Credit	-	-	-	2.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	16.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Oct-20) 2)CARE BBB-; Stable (07-Oct-20)	-	-
2.	Fund-based - ST-Stand by Packing Credit	ST	2.00	CARE A3	-	1)CARE A3 (27-Oct-20) 2)CARE A3 (07-Oct-20)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	16.00	CARE A3	-	1)CARE A3 (27-Oct-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated facilities:

Financial covenants	Detailed explanation
Subordination	Unsecured loans will not be withdrawn from the business during currency of advance and without prior approval of the bank

Annexure 4: Complexity level of various instruments rated for this Company

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

Annexure 5: Bank Lender Details:
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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