

OCTOBER 27, 2016

CARE REVISES ST RATING AND REAFFIRMS LT RATING ASSIGNED TO BANK FACILITIES OF ORIENT ABRASIVES LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	111 (enhanced from Rs. 55 crore)	CARE A (Single A)	Reaffirmed
Short term Bank Facilities	13 (enhanced from Rs. 10 crore)	CARE A1 (A One)	Revised from CARE A1+ (A One Plus)
Total Facilities	124 (Rupees One hundred and twenty four crore only)		

Rating Rationale

The revision in the short term rating assigned to the bank facilities of Orient Abrasives Ltd (OAL) factors in the moderation of the liquidity profile of the company on account of the ongoing capex and elongated working capital cycle due to higher collection period.

The ratings however continue to derive strength from experience of the promoters, established track record of operations, OAL's moderate market position in the abrasives grain industry, operational efficiency on account of captive mines and power plants and healthy financial risk profile. The ratings are, however, constrained by the relatively small scale of operations, susceptibility of profitability margins to volatility in the raw material prices and power costs and increasing working capital intensity of operations.

Going forward, OAL's ability to increase its scale of operations, maintain its profitability by effectively managing raw material price volatility while maintaining its capital structure and improving the short term liquidity position in light of the on-going capital expenditure plans would remain the key rating sensitivities.

Background

Orient Abrasives Limited (OAL) incorporated in 1971 by the late Mr R.L. Rajgarhia and his son, Mr S G Rajgarhia (Ex-MD). OAL primarily operates in two segments i.e. (a) Fused aluminum oxide grains including calcined products, monolithic, and (b) generation of power. Till FY11, OAL also had a refractory division (established in 1985) which was demerged w.e.f. 01-Apr-2011 into 'Orient Refractories Ltd.

During FY16, Bombay Minerals Ltd (BML; already holding 18% equity stake in OAL as on March 31, 2015 since FY14) jointly with Cura Global Holdings Limited (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.) commenced the process of acquiring promoter equity stake (i.e. stake of Mr S.G. Rajgarhia along with his relatives) and further through open offer. As on June 30, 2016 the shareholding in OAL of BML stood at 39.10% and CGHL at 23.73% taking the combined promoter holding to 63.07%.

In FY16 (refers to period from April 01, 2015 to March 31, 2016), the company achieved a total income of Rs.288.35 crore and a PAT of Rs. 23.61 crore as against a total operating income of Rs. 183.11 crore and a PAT of Rs. 12.31 crore in FY15. The company achieved total income of Rs. 57.08 crore with a PAT of Rs. 4.76 crore in Q1FY17 (unaudited results).

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Analyst Contact

Name: Ankita Sehgal

Tel: 011- 45333226

Email: ankita.sehgal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD**Mr. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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