Orient Abrasives Limited

April 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	98.85	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE A [Single A; (under credit watch with negative implications)]
Short-term Bank Facilities	15.00	CARE A2+ [A Two Plus]	Revised from CARE A1 [A One; (under credit watch with negative implications)]
Total Facilities	**113.85 [One Hundred Thirteen crore and Eighty Five Lakhs Only]**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings from 'credit watch with negative implication' on account of resumption of operations at the Porbandar plant post resolution of workmen issues which had led to closure of plant during June 27, 2018 to September 01, 2018 and clarity on the possible impact of the plant closure on the credit risk profile of the company.

The revision in the ratings assigned to the bank facilities of Orient Abrasives Limited (OAL) factors in the lower-than-expected operating profit margins in FY18 (refers to the period April 01 2017 to March 31 2018) as compared to earlier envisaged levels on account of lower exports of non-plant grade bauxite ore. Furthermore, during 9MFY19, the operating margins continued to remain low as compared to earlier envisaged levels as a result of volatile input prices and disruptions in plant operations. The rating revision also takes into account modest liquidity position of the company.

The ratings continue to derive strength from the experienced promoters, established track record of operations, competitive market position in the abrasives grain industry and operational efficiency of the company given access to captive bauxite mines and power plants. The ratings also derive strength from the healthy financial risk profile backed by large networth base, lower TOL to TNW, comfortable capital structure and debt coverage indicators.

The aforementioned strengths are however tempered by moderate scale of operations, working capital intensive nature of operations, ongoing capex leading to moderation in liquidity coupled with profit margins susceptible to volatile input prices and cyclical nature of end user industry.

Going forward, OAL's ability to increase scale of operations, improve profit margins as envisaged by effectively managing raw material price volatility, maintaining comfortable capital structure and improving liquidity position in light of the ongoing capex as well as effective management of working capital cycle shall remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record, experienced promoters and competitive market position in the abrasive industry

OAL has an established track record in the abrasives industry of more than four decades; the company primarily operates in fused aluminium oxide grains (including calcined products, monolithic) and power generation. In July 2015, the OAL's operations were acquired by Bombay Minerals Limited (BML, established in 1953) engaged in mining of bauxite and manufacturing of calcined bauxite. BML is subsidiary of Ashapura Minechem Limited (AML), part of Ashapura Group a leading mineral processor and exporter of bauxite and bentonite. The company thus derives benefit from long standing promoter experience in the industry; currently OAL's day-to-day operations are managed by a team of qualified and experienced managers. OAL enjoys well established market position in the aluminium oxide grains market; furthermore, in the brown fused alumina category OAL accounts for a major market share.

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

Operational efficiency derived from backward integration

OAL's key raw materials are raw bauxite, and calcined alumina (for white fused aluminia); the company is well integrated for the same with captive access to raw bauxite mines at Bhatia, Jamnagar and Bhuj in Gujarat; however, due to the low-grade bauxite mines company procures high-grade bauxite from outside. Furthermore, the manufacturing operations are power intensive, for which the company has captive power plant with installed capacity of 9 MW. Additionally, the company owns a digital generator set of 9 MW for contingencies. OAL thus draws benefit in terms of cost efficiency.

Healthy financial risk profile marked by comfortable capital structure/debt coverage ratios

The company's healthy financial risk profile is marked by networth base of Rs.203.54 crore as on March 31, 2018, and Rs.211.37 crore as on December 31, 2018. The total outside liabilities to tangible networth (TOL to TNW) for the company remained low at 0.71 times as on March 31 2018. The company's total debt largely comprises of term debt availed for funding capital expenditure, short term borrowings from bank and related parties to fund working capital requirements. Despite an increase in term debt during the year, the company's capital structure continued to remain comfortable reflected in the overall gearing of 0.30 times at the end of FY18, also the total debt to gross cash accruals (TD/GCA) and total debt to PBILDT (TD/PBILDT) stood comfortable at 1.98 times and 1.83 times respectively. The company's PBILDT interest coverage ratio was at 5.42 times in FY18. At the end of 9MFY19 (December 31, 2018), the company's overall gearing stood at 0.27 times; while the TD/GCA and TD/PBILDT stood at 2.15 times and 1.45 times respectively. The interest coverage during the aforesaid period was at 4.49 times.

Key Rating Weaknesses

Moderate scale and working capital intensive nature of operations

The company undertakes manufacturing of calcined bauxite fused aluminium oxide abrasive grains, refractory castables and monolithics. Though the revenues grew 36% on a y-o-y basis in FY18, the scale of operations remain relatively modest vis-à-vis the size of the industry/peers. The company's operations are working capital intensive in nature; primarily on account of considerable inventory holding period for major raw materials of 149 days, higher credit period offered to the customers (albeit improvement in FY18) of 86 days partially offset by credit period availed from creditors of 83 days. The operating cycle in FY18 thus continued to be high at 153 days.

Lower than expected operating profit margins

OAL's operating profitability in FY18 was impacted by lower exports of non-plant grade bauxite ore; this resulted in lower operating margin vis-à-vis envisaged earlier. During 9MFY19 as well the operating margin continued to remain subdued as against the earlier envisaged level primarily on account of volatile input prices and disruptions in plant operations (closure of plant due to labour unrest and blast in the tilting furnace section).

Modest liquidity position

The company generated cash accruals of Rs.30.71 crore in FY18; the same was deployed towards funding of working capital, on-going capital expenditure and repayments in FY19. Furthermore, despite improvement in the operating cycle and enhancement in the bank limits, the overall fund based utilization of bank limits hovered around ~88-93% during the last 12 months period ending February-2019 indicating modest liquidity position. Moreover, the company in FY18 allotted share warrants worth Rs.32.31 crore to Ashapura Group (promoter, Mr. Manan Shah) which will subsequently be converted into equity shares within 18 months of allotment (expected in FY20). Of this, the company has already received 25% i.e. 8.08 crore in FY18; while the balance (Rs.24.23 crore) is likely to be received in FY20. The said infusion is expected to improve the liquidity position in the near to medium term and thus remains a key rating monitorable.

Susceptibility of profit margins to volatility in raw material prices

OAL's key raw materials are raw bauxite and calcined alumina; given the commodity nature of the raw materials the prices tend to remain volatile exposing thus the operating margins of the company to volatility in raw material prices. Furthermore, the power intensive nature of the operations also exposes the operating margin to rising fuel costs.

Cyclical nature of end user industry

OAL's products find application in industries such as cement and steel. The demand dynamics of steel and cement sector are driven by government spending on infrastructure development, growth in real estate sector and demand from other steel consuming sectors such as automobiles, consumer durables etc. Both the industries remain sensitive to shifting business cycles including changes in general economy and seasonal changes in demand and supply.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]

About the Company
Orient Abrasives Limited (OAL) was incorporated in 1971; the company primarily operates in two segments namely fused aluminium oxide grains (including calcined products, monolithic) and power generation.
In 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. BML and Cura Global Holdings Limited acquired shares through open offer taking the share of BML to 39.10% and CGHL to 23.73% taking the combined promoter holding to 63.51% as on June 30, 2017 (The balance 0.68% being held by individual promoters).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	218.11	327.37
PBILDT	21.27	34.99
PAT	6.92	16.99
Overall gearing (times)	0.29	0.30
Interest coverage (times)	4.71	5.42

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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

Analyst Contact:
Name: Mr. Vikash Agarwal
Tel: 022 6754 3405
Board: 022 6754 3456
Email: vikash.agarwal@careratings.com

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Annexure-1: Details of Facilities

Name of the Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	Sep-2022	28.85	CARE A-; Stable
Non-fund-based-Short Term	-	-	-	15.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	70.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	28.85	CARE A-; Stable	1)CARE A (Under Credit watch with Negative Implications) (09-Jul-18)	1)CARE A; Negative (20-Nov-17)	1)CARE A (27-Oct-16)	1)CARE A (01-Mar-16) 2)CARE A (21-Apr-15)
2.	Non-fund-based Short Term	ST	15.00	CARE A2+	1)CARE A1 (Under Credit watch with Negative Implications) (09-Jul-18)	1)CARE A1 (20-Nov-17)	1)CARE A1 (27-Oct-16)	1)CARE A1+ (01-Mar-16) 2)CARE A1+ (21-Apr-15)
3.	Fund-based – LT Cash Credit	LT	70.00	CARE A-; Stable	1)CARE A (Under Credit watch with Negative Implications) (09-Jul-18)	1)CARE A; Negative (20-Nov-17)	1)CARE A (27-Oct-16)	1)CARE A (01-Mar-16) 2)CARE A (21-Apr-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

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. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@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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