Orient Abrasives Limited

July 09, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	131.00	**CARE A [Single A] (under credit watch with negative implications)**	Placed on credit watch with negative implications
Short-term Bank Facilities	15.00	**CARE A1 [A One] (under credit watch with negative implications)**	Placed on credit watch with negative implications
Total Facilities	**146.00 (Rs. One hundred and Forty Six crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orient Abrasives Limited (OAL) are placed under 'credit watch with negative implications' on account of temporary closure of manufacturing plant located at Porbandar, Gujarat with effect from June 27, 2018 owing to its uncertainty towards pending resolution of issues with workmen/labourers and the possible extent of adverse impact on the credit profile on the company. CARE will continue to closely monitor the progress relating to the above development and will take a final rating action on receipt of clarity on the exact impact on the credit profile of the OAL.

The ratings continue to derive strength from the experienced promoters, established track record of operations and OAL's competitive market position in the abrasives grain industry. Furthermore, the rating factors OAL's operational efficiency on account of captive mines and power plants, comfortable capital structure and improvement in profitability in FY18 (refers to the period April 1 to March 31) albeit continue to remain at moderate level. The rating strengths are, however, constrained by the relatively small scale of operations, susceptibility of profit margins to volatility in the raw material prices and power costs, and working capital intensive operations.

Going forward, OAL's ability to maintain sufficient liquidity to manage operations during shutdown of the plant, and any significant delay in commencement of operations in the plant are key rating monitorables. Furthermore, achieve envisaged scalability in operations whilst improving profitability margins along with efficient working capital management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of the company: The company's presence in abrasive industry is of more than four decades, and primarily operates in two segments which are fused aluminum oxide grains including calcined products, monolithic, and generation of power. Since July 2015, the operations of the company are taken over by Bombay Minerals Limited (BML, established in 1953) which is engaged in mining of bauxite and manufacturing of calcined bauxite. BML is a subsidiary of Ashapura Minechem Limited (AML), part of the Ashapura Group which is one of India's significant players in mineral processing and exports particularly for bauxite and bentonite. The day-to-day operations of the OAL are managed by a team of qualified and experienced management.

Competitive position in the abrasives grain industry: OAL enjoys a significant market share in the aluminium oxide grains market and in the Brown Fused Alumina category, OAL enjoys a major share of the market.

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

Operational efficiency on account of captive mines and power plants: OAL owns captive mines of raw bauxite at – Bhatia, Jamnagar and Bhuj, Gujarat. Bauxite, Alumina and Zirconia are the main raw material used in manufacturing of the finished product. Furthermore, the abrasive grains division is a power intensive unit. OAL's own captive power plant (total power generation capacity of 18 Mega Watt, out of which 9MW is based on coal and 9MW on furnace oil) at Porbander. OAL enjoys cost efficiency on account of captive mines and power plants.

Comfortable capital structure: Despite of term debt availed in FY17-FY18 to fund the bauxite calcination kiln (commenced commercial operations in October 2017), the capital structure continues to be comfortable as reflected in overall gearing ratio of 0.31 times as on March 31, 2018. Furthermore, the profit before interest, depreciation and tax (PBILDT) interest coverage is at 5.71 times in FY18.

Improvement in profitability albeit continues to remain at modest level: The profit after tax increased to Rs.16.99 crore in FY18 from Rs.6.92 crore in FY17 majorly on account of cost efficiencies introduced and favourable revision in product mix.

Key Rating Weaknesses

Temporary shutdown of manufacturing plant: Owing to pending resolution of issues with workmen/labourers, the company is forced to temporary close the operations of the plant located at Porbandar, Gujarat with effect from June 27, 2018. The management is working towards amicable resolution of the matter and resume production at the earliest. The extent of adverse impact of the above development on the credit profile and liquidity position of the company remains to be seen.

Susceptibility of profitability margins to volatility in raw material prices and power costs: The major raw materials used by OAL are bauxite and alumina. The prices of these raw materials have remained volatile over the years. OAL meets the bauxite requirement primarily from its own mines while alumina and other raw materials viz. lime, iron chips, furnace oil are procured from other indigenous players and material viz coal/ met coke, graphite electrode are either imported or procured from domestic market. The volatility in cost of these raw materials may have an adverse impact on the profitability of the company. Furthermore, the profitability of OAL is also susceptible to increase in power costs and coal which is used for the thermal power plant.

Relatively small scale of operations: Although, the total operating income increased to Rs.327 crore in FY18 from Rs.218 crore in FY17, however, the company continues to a relatively small player in the industry.

Working capital intensive operations: The company operates in a working capital intensive business due to considerable inventory held, high credit period offered to customers (although improvement in FY18) which is partially offset through credit period availed from suppliers.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
Criteria for placing rating on credit watch
CARE's methodology for manufacturing companies

About the Company

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.

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). BML and Cura Global Holdings Limited have further 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% is 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	0.31
Interest coverage (times)	4.71	5.71

*A: Audited; *based on abridged financials for FY18 published on BSE website*

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.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/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	-	-	September 2022	46.00	CARE A (Under Credit watch with Negative Implications)
Non-fund-based-Short Term	-	-	-	15.00	CARE A1 (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	85.00	CARE A (Under Credit watch with Negative Implications)

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 & Rating assigned in 2018-2019	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016
1.	Term Loan-Long Term	LT	46.00	CARE A (Under Credit watch with Negative Implications)	-	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 A1 (Under Credit watch with Negative Implications)	-	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	85.00	CARE A (Under Credit watch with Negative Implications)	-	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)

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