

Orient Abrasives Limited (Revised)

August 3, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities Fund Based - Term Loan	12.24 (Reduced from 28.85)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Long term Bank Facilities Fund Based - Cash Credit	70.00	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Short term Bank Facilities- Non Fund Based	15.00	CARE A2+ [A Two Plus]	Reaffirmed
Total	97.24 (Rs. Ninety Seven crore and Twenty Four Lakhs 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) continue to derive strength from the established track record of operations and competitive market position of the company in the abrasives grain industry. The ratings further derive strength from OAL's operational efficiency on account of captive mines & power plant along with its comfortable capital structure & strong coverage indicators.

The rating strengths are however, tempered by moderate scale of operations, working capital intensive nature of operations and cyclical nature of the end user industry.

OAL has obtained a moratorium on interest payments from its lenders as part of the COVID-19 -Regulatory Package announced by the RBI on March 27, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated March 30, 2020.

Rating Sensitivities*Positive Factors*

- Improvement in operating cycle leading to improved liquidity position of the company
- Increase in scale of operations resulting in significant market share

Negative Factors

- Deterioration in operating profit margins below 10% for a sustained period
- Higher than expected debt funded capex leading to deterioration of overall gearing above 0.5x
- Any recurrence of labour strike resulting in adverse impact on operations of OAL

Detailed description of the key rating drivers**Key Rating Strengths*****Experienced promoters and established track record of the company***

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, 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 which operates in mineral processing and also exports 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.

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

Operational efficiency on account of captive bauxite mines and power plants

OAL's key raw materials are raw bauxite, and calcined alumina (for white fused alumina); 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 open market. Furthermore, the manufacturing operations are power intensive, for which the company has captive coal based 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.

Improvement in operational performance

OAL reported 11% growth in its total operating income in FY20 driven by higher sales volumes of calcinated and fused products. Major costs for OAL are raw material cost and power cost. As OAL has captive power plant and bauxite mines these costs remained stable resulting in stable PBILDT margins (12.70% in FY20). PAT margins improved slightly to 5.88% in FY20.

Comfortable capital structure and debt coverage indicators

OAL has healthy financial risk profile with overall gearing of 0.26 times as on March 31, 2020. Total debt of the company majorly consists of working capital bank borrowings and fixed repayment obligations are nominal as compared to the GCA. Total debt/gross cash accruals, total debt/PBILDT and total debt/cash flow from operations improved respectively to 2.05 times, 1.36 times and 1.45 times in FY20 and continue to be comfortable.

Key Rating Weaknesses***Relatively Moderate scale of operations***

Currently, the company undertakes manufacturing of calcined bauxite, fused aluminium oxide abrasive grains, refractory castables and monolithics. Aluminium oxide and calcinated products are major contributors in the operating income along with some part of operating income coming from Monolithics and wind power division. Though OAL reported 11% growth in total operating income for FY20, the scale of operations continues to be relatively moderate vis-à-vis the size of the industry/peers.

Working capital intensive operations

The operations of the company are working capital intensive in nature. The inventory holding period for raw bauxite is high owing to uncertainty over the availability of plant grade bauxite from own mines and outside market. Thus, the inventory days continues to be high at 128 days in FY20. Though, the operating cycle improved to 178 days in FY20, the same continues to be high. However, comfort can be drawn from the fact that OAL's limits for working capital borrowings are 17% of its FY20 revenue and majority of working capital requirement are funded by internal funds.

Cyclical nature of end-user industries

Products of OAL are consumed by companies in steel and cement sector. Thus, the demand for OAL's products is closely linked to the demand emanating from industries such as steel, cement and abrasives (which in turn depend on industrial growth in the economy). The steel and cement industry are sensitive to the shifting business cycles including changes in the general economy and seasonal changes in the demand and supply conditions in the market thus intern exposing performance of OAL to the economic cycles.

Liquidity: Adequate

Liquidity is marked by strong accruals against nominal fixed repayment obligations. Liquidity is also supported by majority of the working capital requirement being funded by internal funds. With a gearing of 0.26 times as of March 31, 2020, OAL has sufficient gearing headroom, to raise additional debt if required.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - 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) 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 31.76% and CGHL to 23.73% as on June 30, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	314.76	349.76
PBILDT	41.06	44.41
PAT	16.17	20.56
Overall gearing (times)	0.39	0.26
Interest coverage (times)	4.44	5.14

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

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
Term Loan-Long Term	-	-	Sep-2022	12.24	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 Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	12.24	CARE A-; Stable	-	1)CARE A-; Stable (05-Apr-19)	1)CARE A (Under Credit watch with Negative Implications) (09-Jul-18)	1)CARE A; Negative (20-Nov-17)
2.	Non-fund-based-Short Term	ST	15.00	CARE A2+	-	1)CARE A2+ (05-Apr-19)	1)CARE A1 (Under Credit watch with Negative Implications) (09-Jul-18)	1)CARE A1 (20-Nov-17)
3.	Fund-based - LT-Cash Credit	LT	70.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Apr-19)	1)CARE A (Under Credit watch with Negative Implications) (09-Jul-18)	1)CARE A; Negative (20-Nov-17)

Annexure-3: 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.	Non-fund-based-Short Term	Simple

Sr. No.	Name of the Instrument	Complexity Level
3.	Term Loan-Long Term	Simple

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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