Orient Abrasives Limited

November 20, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	131.00 (enhanced from Rs.111 crore)	**CARE A; Negative (Single A; Outlook: Negative)**	Reaffirmed
Short term Bank Facilities	15.00 (enhanced from Rs.13 crore)	**CARE A1 (A One)**	Reaffirmed
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 Ltd (OAL) continue to derive strength from the experienced promoters, established track record of operations and OAL's competitive market position in the abrasives grain industry. The rating reaffirmation further factors OAL's operational efficiency on account of captive mines & power plants and also its comfortable capital structure & strong coverage indicators. 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.

Outlook: Negative

The negative outlook takes in to account the expected moderation in the liquidity profile of the company in the medium term on account of the on-going debt funded capex and elongated working capital cycle due to higher collection period. The outlook may be revised to Stable, in case the company is able to timely complete the capex within the envisaged cost and efficiently manage its working capital coupled with the overall improvement in the credit risk profile of OAL.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & established track record of the company: OAL was incorporated in 1971, for the manufacturing of Fused Aluminium Oxide Grains, Calcined Products, Refractories, Monolithics and Ceramic Paper. Over the years, the company has established its position as a prominent player in the abrasives industry commanding a significant market share. Since July 2015, the operations of the company have been 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 the 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. Mr PundarikSanyal who has 40 years of experience including 34 years at Bank of India across various functions and 6 years as Managing Director of Securities Trading Corporation of India is the Chairman of the company. The day-to-day operations of the OAL are managed by a team of qualified and experienced management who have vast experience in abrasives industry.

Moderate position in the abrasives grain industry: OAL was one of the large manufacturers of refractories, monolithics and fused aluminium oxide grains. OAL demerged its refractories business into Orient Refractories Ltd effective from April

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

01, 2012. However, OAL continues to enjoy a significant market share in the Aluminium Oxide grains market. In the Brown Fused Alumina category OAL enjoys a major share of the market. Further, with the proposed expansion & modernisationin the furnace section the company willfurther improve itsmarket share in the same. The primary customers for the abrasives grains division are various players in the refractories industry. The final product of the abrasives grains division is primarily used for making grinding wheels and refractories which finds use in various industries like steel, auto, cement, coke-oven, etc.

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 (constituted 36% of total expenses in FY17). Furthermore, the abrasive grains division is a power intensive unit. Power cost formed nearly 22% of the total cost structure pertaining to the manufacturing facility in FY16. OAL has its own captive power plant (total power generation capacity of 18 Mega Watt as on March 31, 2017, 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.

Moderate financial risk profile: The total Operating income of OAL registered de-growth in FY17 by 24% to Rs 218.11 crore in comparison with FY16. The reduction in sales was mainly on account of decline in non-plant gradebauxite sale. Further, FY17 witnessed challenges in capacity utilization, majorly on account of competition from Chinese Suppliers, weak global demand and volatile exchange rates. PBILDT margin decreased from 17.22% in FY16 to 9.75% in FY17 mainly on account of increased prices of raw materials & consumables especially coal. However, OAL has a comfortable capital structure with overall gearing of 0.29x as on March 31, 2017 (0.21x as on March 31, 2016). The overall gearing will marginally increase on account of on-going debt-funded capex however, with no further increase in the debt other than envisaged for the capex, it is expected to remain comfortable. In Q1FY18, the company has reported total operating income of Rs.76.62 crore registering a growth of 33% over the similar period in FY17 with PBILDT margin of 11.02%

Key Rating Weaknesses

Ongoing Capex and moderating liquidity profile: The Company has undertaken the capex for the installation of bauxite calcination kiln and expansion & modernization in the furnace section along with the gradation lines for the same at the existing plant at Porbandar. Calcination Kiln has started operations from Oct 2017 & the expected COD for the furnace section is April 2018. The capex will help improve the production capacity of the company with a more efficient and cleaner technology. The overall cost of entire project is estimated at Rs. 75 crore. The company has raised a term loan of Rs. 46 crore for the same and the balance is being funded through internal accruals which is likely to place some pressure upon the short term liquidity of the company as the working capital limits of the company remain almost fully utilized. However OAL has proposed enhancement in the working capital limits.

Susceptibility of profitability margins to volatility in raw material prices and power costs: The major raw materials used by OAL are bauxite (32% of total raw material consumption in FY17), alumina (46%) and others (21%). 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 can have an adverse impact on the profitability of the company. Although, given the monopolistic standing of the company in the abrasive grains segment, the company is able to pass on the price increase of material on to its customers. Furthermore, the profitability of OAL is also susceptible to increase in power costs and coal which is used for the thermal power plant. Power and fuel cost constituted 22% of total operating expenses in FY17.

Relatively small scale of operations: Scale of operations has remained relatively small with total operating income of Rs.218.11 crore in FY17. Its asset base stood at Rs.208.49 crore with net worth of Rs.180.65 crore as on March 31, 2017.

Analytical approach:

Standalone

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

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. 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).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)	FY16 (A)	FY17 (A)
Total operating income	288.45	218.11
PBILDT	49.66	21.27
PAT	26.30	6.92
Overall gearing (times)	0.21	0.29
Interest coverage (times)	14.59	4.71

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 Gaurav Dixit
Tel: 011-45333235
Mobile: 9717070079
Email: gaurav.dixit@careratings.com

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

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

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	-	-	-	46.00	CARE A; Negative
Non-fund-based-Short Term	-	-	-	15.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	85.00	CARE A; Negative

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	46.00	CARE A; Negative	-	1)CARE A (27-Oct-16)	1)CARE A (01-Mar-16) 2)CARE A (21-Apr-15)	1)CARE A (04-Apr-14)
2.	Non-fund-based-Short Term	ST	15.00	CARE A1	-	1)CARE A1 (27-Oct-16)	1)CARE A1+ (01-Mar-16) 2)CARE A1+ (21-Apr-15)	1)CARE A1+ (04-Apr-14)
3.	Fund-based - LT-Cash Credit	LT	85.00	CARE A; Negative	-	1)CARE A (27-Oct-16)	1)CARE A (01-Mar-16) 2)CARE A (21-Apr-15)	1)CARE A (04-Apr-14)
4.	Term Loan-Short Term	ST	-	-	-	-	-	1)Withdrawn (04-Apr-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 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

CIN - L67190MH1993PLC071691