Oriental Veneer Products Limited

October 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.00 (Enhanced from 14.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	16.00	CARE A3 (A Three)	Assigned
Short Term Bank Facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	**50.00 (Rs. Fifty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Oriental Veneer Products Limited (OVPL) and Oriental Foundry Private Limited (OFPL) factors in experienced and resourceful promoters, established track record of operations with diversified product profile, moderate order book with reputed clientele, successful commissioning of its wagon manufacturing capacity and subsequent execution of order with Indian Railways. Further, the ratings also factors in the growth in total operating income and profitability margins in FY20, moderate leverage and comfortable debt coverage indicators.

The above strengths are however, tempered by OVPL's presence in highly fragmented industry with tender based nature of operations, susceptibility to volatility in raw material prices and working capital intensive nature of operations.

Rating Sensitivities

Positive Factors:

- Increase in scale of operations with total operating income exceeding Rs.500 crore on a sustained basis
- Reduction in working capital cycle below 120 days on sustained basis

Negative Factors:

- Increased working capital days over 180 days.
- Any large debt funded capex thereby increasing the overall gearing over 1.5 times.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter

OVPL is promoted by Mr. Saleh Mithiborwala (chairman & CFO) with other family members' viz. Mr. Vali Mithiborwala (Director) and Mr. Karim Mithiborwala (Managing Director) who have long standing experience of about three decades in supplying various products viz. compreg board, seats and berths to Indian Railways. Mr. Saleh Mithiborwala oversees the tendering process and financial aspects of the group, whereas Mr. Karim and Mr. Vali oversee the manufacturing activity.

Further, promoter and promoter group companies continue to support OFPL (subsidiary of OVPL) by way of interest free unsecured loans. The unsecured loans from promoters and promoter group as on March 31, 2020 was Rs.74.88 crore (Rs.50 crore remain subordinated).

Established track record of operations with diversified product profile

Established in 1991, OVPL has track record of almost about three decades in supplying various products to Indian railways. Company is a Preferred Part I vendor of Research Design and standards Organisation (RDSO), Indian railways and caters to the demand of railways directly as well as indirectly (supply to the other suppliers of Indian railways). Over the years, Group has expanded its products portfolio from compreg boards and Recron Densified Thermal Bonded Blocks to manufacturing of seats, berths and retention tanks. Group had further, expanded its products portfolio through manufacturing of coupler body and bogies in 2014 through OFPL and had also forayed into manufacturing of railway wagons during FY19, thereby expanding its product offering to Indian Railways by leveraging existing relationship. Majority of income is coming from Seats & Berths followed by wagon and bogies.

Moderate Order book with reputed clientele

Order book of OVPL remained moderate at Rs.394.92 crore (OVPL-Rs.167.88 crore and OFPL-Rs.227.04 crore) as on September 08, 2020 to be executed within 1 year resulting in moderate order book to sales ratio of 1.48 times of FY20 providing revenue visibility . Majority of orders are directly from various subsidiaries of Indian Railways viz. 87% of order book in OVPL and 63%

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

of order book in OFPL. Balance order book is mainly from companies like Bharat Earth Movers Limited, Jindal Rail Infrastructure Limited (CARE BBB-(CE); Stable/ CARE A3(CE)) and Sail Rites Bengal Wagon Industry Private Limited (CARE BBB; Stable/ CARE A3+) which in-turn caters to the demand of Indian Railways. Heavy reliance on Indian Railways links the company's growth prospects to the demand from the same.

Growth in total operating income and profitability margins during FY20:
On Consolidated level, Total operating income grew at a healthy compounded annual growth rate (CAGR) of 42.12% (FY18-FY20) to Rs.269.16 crore in FY20 with increase in orders for the Indian Railways. The income also grew due to operationalization of wagons project in OFPL. However, overall scale of operations continues to remain moderate.
OVPL on a consolidated basis reported improvement in TOI to Rs. 269.16 crore in FY20 (PY: Rs. 141.26 crore in FY19) and profitability margin to 17.11% in FY20 (PY: 15.75% in FY19). This is mainly due to increased profitability margins of wholly owned subsidiary of OVPL i.e., OFPL (standalone), contributing ~38% of total consolidated revenues. The PBILDT margin of OFPL improved from 14.29% in FY19 to about 15.81% in FY20. In line with increase in PBILDT margin, PAT margin also improved from 8.31% in FY19 to 9.04% in FY20.On consolidated basis, Company has achieved sales of Rs. 85.17 crore (refers period from April 2020 to August 2020).

Recently commissioned wagon manufacturing facility by OFPL to support revenue growth going forward
OFPL had recently completed the major capex of manufacturing of wagons with capacity of 1000 wagons per annum in August, 2019. Furthermore, OFPL had received an order for supply of 500 wagons during the first round of tender by Indian Railways wherein orders of 12,611 wagons were distributed out of its total plan to procure 22,000 wagons. Also, with next tender is set to release in coming months OFPL is expected to benefit from new orders.

Enhancement of Bogie manufacturing capacity:
OFPL unit I manufactures bogie with current capacity of 830 MT per month and utilization at more than 60%. Currently, the company is working on its plan to expand the production capacity to 1660 MT per month. The cost of the expansion is estimated at Rs. 18 crore which would largely be funded from internal accruals and equity from promoters with lesser reliance on debt.

Key Rating Weaknesses
Susceptibility of profitability to volatility in raw material prices
OVPL's product mix mainly includes seats, berths, compreg boards wherein the major raw materials are wood, rexene, cloth, foams, recron and various other solvents. Major raw material is supplied inhouse such as, company manufactures rexene and foam, useful in manufacturing of seats. Other raw material consumed for manufacturing of seats includes veneer, which is formed from timber and company procures timber from local market, whose prices are susceptible to fluctuations. For wagons, bogies and coupler body major raw material is Steel or scrap of steel which is procured from local market whose prices are highly volatile in nature. However, the company has a price variation clause inbuilt for key raw material i.e., Steel scrap (procured from local market) and Wheels procured from Indian Railways, thus reducing the price volatility to that extant.

Present in fragmented industry with tender-based nature of operations - albeit, reduced level of competition for seats and berths
Railway ancillary products space is dominated by many organized entities resulting in high level of competition in the industry for Wagons division wherein competition is controlled due to stringent norms of RDSO to get product approvals. Wagons manufacturing industry is dominated by few major players who have benefitted from economies of scale, leaving OVPL susceptible to competition as it is a recent entrant in the product category.
Further, the procedure of procurement of orders from Indian Railways is tender based. Also, with change in tendering process from envelope based system of submission to reverse auction bases where the bidders will now be aware of the last bid price might exert pressure on profitability of the companies. Moreover there remains a risk as to continuous receipt of orders due to tender based nature of operations.

Working Capital intensive nature of operations
The nature of business of OVPL entails considerable dependence on working capital requirements both in the form of fund based and non-fund based borrowings due to relatively longer processing period necessitating high inventory holding period and elongated collection period. OFPL unit I manufactures Bogie and its manufacturing process takes 60 days. The process includes technical cum quality control which requires more time to be completed. There are highly safety norms to be followed. Further, the company has to maintain scrap inventory (raw material). OFPL unit II manufactures freight wagon. The manufacturing of wagon includes an additional step of technical inspection from Railway authority. The inspection takes 10-15 days and for delivery of wagons an engine is to be arranged by Railway to pull all the wagons. There is a condition that at least 54 wagons must be ready to pull in one go. So the company has to build up inventory to such an extent. OFPL has to purchase wheels from railway factories only and their waiting period is 2 months after full advance payment. So OFPL has to

maintain wheel stock otherwise there is a chance of delay in delivery. Also, with increase in scale of operations, the working capital borrowings have also increased.

Further, the company has efficient collection cycle of 30-90 days. OVPL & OFPL's products are RDSO approved and bid through tender, in which payment terms & conditions are being mentioned. Generally tender mentions 30 to 60 days payments terms, the company receives payment within this period except Jan, Feb and March where payment is made after budget allocation decisions.

Additionally, with orders for wagon expected to go up which would result in increased working capital requirement as wagons had comparatively longer execution cycle and major raw material is custom grade of mild steel which is procured mainly from local mild steel players. However, the same would be more than offset by improved efficiency as a result of increased scale of operations.

Liquidity Analysis: Adequate
OVPL on a consolidated basis reported a GCA of Rs. 29.58 crore in FY20, however, cash flow from operations was negative led by increased inventory levels with growing scale of operations. Current ratio and quick ratio remained moderate at 1.32xand 0.68x respectively as on March 31, 2020. The average fund based limit utilization of OVPL and OFPL stood moderate at 73% and 80% respectively for the past 12 months ending August, 2020.The maximum utilization had remained above 80% during September 2019 - August 2020 in OVPL. Further, Company has repayment obligation of Rs. Rs. 3.05 crore in FY21, while the company's unencumbered cash position was at Rs. 3.91 crore as on March 31, 2020 as against Rs. 4.41 crore as on March 31, 2019.

Moratorium on working capital loans: The Company has not availed any moratorium of interest or EMI payments and has paid all its dues on time.

Impact of Covid-19
The company's majority of revenue is from Indian railways and this was not affected as company did not face issue in receiving orders due to Indian railway's mission to develop rail infrastructure. The company only faced issue in availability of labor; this halted the operations from March 2020 to May 2020. Currently, the operations of the company are gradually picking up and company expects to finish order delivery as per scheduled time.

Analytical approach: Consolidated
CARE has analyzed the consolidated financials for arriving at the ratings of OVPL comprising of OVPL and its 100% subsidiary OFPL as both have operational and financial linkages along with common management. Both cater to the demand of various products for Indian Railways. Further, there is an explicit support by OVPL to OFPL in the form of corporate guarantee for the full sanctioned bank facilities extended by SVC Bank and SBI Bank to OFPL. However, there is no corporate guarantee has been extended to bank facilities of Saraswat Bank Ltd.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
OVPL was incorporated as Private Limited firm on March 08, 1991 by Mumbai based Mithiborwala group. The company was converted to a Public Limited Company, Limited by Shares on July 03, 1995, was listed on BSE. The Company is engaged in the manufacturing and selling of all type Recorn, Seat & berth, Compreg Boards, retention tanks and also engaged in trading of timber woods and all its products. The company caters to domestic markets. Indian Railways is the major consumer of OVPL's products. OVPL is one of Preferred Part I vendor of Indian Railways. All the OVPL's products to Indian Railways are approved by the RDSO which is the sole vendor approving body for the consumer organization. The products are also RITES (erstwhile Rail Technical Economic Service) certified which is the sole inspecting authority for ensuring quality and clearance of all products for supplying to Indian Railways.

OVPL has a wholly owned subsidiary under the name of **OFPL** incorporated on 25th July, 2014. The company is engaged into manufacturing of bogies, coupler and wagons for Indian railways and many other industries. OFPL has 2 separate units for manufacturing of its product line. OFPL Unit I manufactures Bogie and OFPL Unit II manufactures wagons. OFPL unit I has manufacturing capacity of 830 MT per month while, unit II has manufacturing capacity of 1000 wagons per annum. The manufacturing facilities for the products have been set up across two locations in Gujrat: Village Chopvadva & Village Lakadia. Both the manufacturing plants have been approved by Indian Railway's RDSO.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	141.26	269.16
PBILDT	22.25	46.06
PAT	11.74	24.33
Overall gearing (times)	1.08	1.12
Interest coverage (times)	5.50	4.21

A: Audited

Status of non-cooperation with previous CRA:
CRISIL had assigned CRISIL BB+ Stable/A4+ in June 29, 2015 and in November 28, 2016 placed on notice of withdrawal. Later on April 6, 2017 CRISIL has removed the notice of withdrawal, reaffirmed the ratings and moved to issuer not cooperating category. Ratings were last reviewed October 16, 2019 based on best available information.

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
Fund-based - LT-Cash Credit	-	-	-	32.00	CARE BBB-; Stable
Fund-based - ST-Stand by Packing Credit	-	-	-	2.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	16.00	CARE A3

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.	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Stable	1)CARE BBB-; Stable (07-Oct-20)	-	-	-
2.	Fund-based - ST-Stand by Packing Credit	ST	2.00	CARE A3	1)CARE A3 (07-Oct-20)	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	16.00	CARE A3	-	-	-	-

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.	Fund-based - ST-Stand by Packing Credit	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

(Reference: For detailed Rating Rationale (RR) please refer to the RR published dated October 21, 2020)

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

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