

July 30, 2024

Oriental Rubber Industries Pvt. Ltd.: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|-----------------------------------|----------------------------------|--|
| Long Term-Fund Based – Term Loan | 30.00 | 30.00 | [ICRA]BBB+(Positive); reaffirmed, outlook revised to Positive from Stable |
| Long Term / Short Term – Fund Based / Non Fund Based Facilities | 379.50 | 379.50 | [ICRA]BBB+(Positive)/[ICRA]A2; reaffirmed, outlook revised to Positive from Stable |
| Total | 409.50 | 409.50 | |

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the ratings of Oriental Rubber Industries Pvt. Ltd. (ORIPL) at [ICRA]BBB+/[ICRA]A2. The revision in the outlook on the long-term rating factors in the robust improvement in the company's profitability in FY2023 and FY2024, supported by favourable product mix along with its enhanced focus on higher value-added products, improvement in operations at the South African subsidiary, expectation of roping in new customers and sustaining profitable domestic operations coupled with savings in the borrowing costs with prudent utilisation of funds. ICRA also notes the sizeable expansion in ORIPL's scale of operations in the recent past (with revenue increasing at a decent CAGR of 12.4% in the past five fiscal years), which coupled with a steady improvement in the operating margins, and revenue visibility from new customer acquisition are likely to aid in its business performance, going forward. The company benefits from a diversified product portfolio, catering to different end-user industries, established relationships with a reputed clientele, a healthy order book position and presence across various geographical markets, which strengthens its business profile. Supported by its healthy market standing in the supply of conveyor belts for industrial applications, the company has witnessed a robust revenue growth momentum in the recent years, driven by strong demand from its key customers. Consequently, its return indicators also improved on a consistent basis.

Further, with limited capex outgo and relatively stable debt levels, the company's credit metrics have also witnessed a gradual improvement, which are expected to sustain, going forward. The ratings also continue to draw comfort from the long experience of the promoter group and strong position of the company in the conveyor belt industry, especially in the domestic market. ICRA notes the strong share of replacement business in the overall revenue pie, providing stability to the company's revenues. Expectation of healthy demand from the end-user segments in various geographies, especially for replacement, is likely to continue to aid ORIPL's earnings growth prospects, going forward. ICRA also notes the steady operational performance by ORIPL's South African subsidiary, Oriental Rubber Industries SA Pty Ltd (ORSA), in FY2024, which is likely to sustain going forward, aided by an increase in the scale of operations and steady revenue visibility from a marquee clientele.

The operations are, however, working capital intensive in nature due to elongated receivables and longer lead time for imported raw materials, resulting in reliance on external borrowings to meet its working capital requirements. Nevertheless, the Company is consciously attempting to reduce utilisation levels of working capital. Further, the company faces competition in the industry from large incumbents as well as small and mid-sized players. Nonetheless, ORIPL mainly caters to the organised segment, insulating it largely from competition arising from unorganised players and the resultant pricing pressure. The company's profitability is also susceptible to volatility in raw material prices (as evident from the recent steep hike in natural rubber prices) and forex rates, although it can pass on the increase in raw material costs to its customers to a large extent and has a natural hedge in terms of imports as well. The operations are also prone to the cyclicity of the mining, steel and power

industries, although ORIPL's established relationships and demonstrated ability to increase wallet share with its key customers mitigate the impact of cyclicity in some of its end-user industries.

The Positive outlook on the long-term rating considers improved operational and financial performances and ORIPL's established relationships with its customers, which are expected to support its business prospects over the medium term and support it in maintaining a healthy credit profile.

Key rating drivers and their description

Credit strengths

Strong market position in the domestic conveyor belt industry – ORIPL is positioned as the leading manufacturer of conveyor belts in the country, with an established presence in the textile reinforced conveyor belt segment, along with a rapidly growing presence in the steel reinforced conveyor belt segment. Its large scale and product diversity lend significant advantages over small / mid-sized players in garnering orders from reputed customers, in both domestic and overseas markets. An established operational presence spanning over seven decades along with a reputed clientele also aids ORIPL in new customer acquisition.

Healthy product, geographical and customer diversification – ORIPL benefits from a diversified revenue profile, with presence across various product segments, and a reputed clientele across geographies. The company offers various products under both textile reinforced and steel reinforced conveyor belts, which have different applications. Further, with exports constituting 60-65% of its total sales, revenues are geographically well diversified, with limited dependence on any particular market. The company benefits from healthy customer diversification and low counterparty risk as it caters to reputed industrial houses in the domestic market, and mainly through distributors with long relationships in the export market.

Steady improvement in profitability, and healthy revenue stream from replacement segment – The replacement cycle for textile reinforced conveyor cables, which constitutes most of its sales, is about three to four years, whereas for steel reinforced conveyor belts, the same is longer at five to seven years. A healthy replacement order book signifies strong customer relationships and more stable revenue streams than project revenues, which are generally irregular in nature. The company derives a large portion of its revenues from the replacement segment, signifying healthy revenue stability and visibility. Aided by favourable product mix and enhanced focus on higher value-added products, ORIPL's operating margin improved from the historic 10-12% to 15.4% in FY2023 and further to 15.7% in FY2024 (provisional). Improved profitability and expanding scale of operations are expected to reflect positively in healthy accruals generation, going forward. ICRA anticipates a marginal decline in ORIPL's operating profitability in FY2025 owing to volatile raw material prices.

Credit challenges

Working capital intensive nature of operations – Owing to high proportion of export sales (resulting in longer receivable cycle) and longer lead time in procuring imported raw materials (resulting in high inventory), the company's working capital cycle is elongated in nature. Consequently, the company has to rely on bank borrowings to fund its working capital requirement to an extent. However, focus on improving inventory management initiatives by the company has resulted in a moderation in the inventory holding in the recent past. Besides, steady cash flow generation reduced the working capital borrowing from Q1 FY2025.

Pricing flexibility remains limited because of competition – The conveyor belt industry is characterised by the presence of some large competitors, including subsidiaries of global tyre majors, in the overseas markets, and from small and mid-sized players in the domestic market. Consequently, the company's pricing flexibility remains limited. ORIPL, however, commands premium in the value-added product segments such as fire-resistant and other constructions of conveyor belts, where the competitive intensity is relatively lower.

Exposure to volatility in raw material prices and forex rates – ORIPL remains exposed to the risk of volatility in raw material prices, mainly rubber, its key raw material. The company runs an advance order book and endeavours to protect expected margin on sales through prudent buying of raw materials, thereby mitigating some impact of raw material price volatility.

Procuring through domestic as well as overseas suppliers, based on the prevailing market conditions, provides some comfort to the input cost management. Nevertheless, ORIPL's ability to safeguard its margins amid elevated input costs remains a key rating monitorable. Further, the company is susceptible to fluctuations in forex rates as it derives a major proportion of its revenues from exports. However, it has a natural hedge in the form of imports as well.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by expectations of healthy cash accruals (worth Rs. 80-100 crore annually), along with undrawn working capital lines of Rs. 100.8 crore and free cash of Rs. 10-12 crore as on March 31, 2024 (provisional). Against these sources of funds, the company has modest debt repayments of Rs. 4-5 crore per annum over the next two years, and capex plans of Rs. 15-20 crore in FY2025 towards augmentation of its capacity, which are expected to be funded comfortably from the existing liquid funds.

Rating sensitivities

Positive factors – Demonstration of a strong liquidity position while maintaining the current level of profitability and capital structure on a sustained basis, might lead to ratings upgrade.

Negative factors – ICRA could downgrade ORIPL's ratings if there is a sharp deterioration in the operating profits, weakening its liquidity profile and credit metrics on a sustained basis. Specific credit metrics that could put pressure on the ratings include an interest coverage of less than 4.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of ORIPL. As on March 31, 2024, the company had two subsidiaries, which are enlisted in Annexure-2. |

About the company

Oriental Rubber Industries Pvt. Ltd. was established in 1949 and was one of the first producers of rubber moulded articles in independent India. The company primarily manufactures textile and steel conveyor belts for steel, coal, cement, power, fertiliser and mining sectors. The company also exports to North America, Europe, Australia, Southern Africa and West Asia. ORIPL is a professionally managed, family-owned company that has been in the business for the past 75 years. At present, the operations of the company are jointly managed by the third-generation promoters, Mr. Vikram Makar and Mr. Vishal Makar.

Key financial indicators

| ORIPL – Consolidated | FY2022 Audited | FY2023 Audited | FY2024 Provisional |
|--|----------------|----------------|--------------------|
| Operating Income (Rs. crore) | 728.7 | 936.6 | 942.6 |
| PAT (Rs. crore) | 52.4 | 76.8 | 104.2 |
| OPBDIT/OI (%) | 10.7% | 15.4% | 15.7% |
| PAT/OI (%) | 7.2% | 8.2% | 11.1% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.5 | 1.2 | 0.7 |
| Total Debt/OPBDIT (times) | 2.6 | 1.5 | 1.1 |
| Interest Coverage (times) | 4.2 | 6.9 | 11.3 |

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: ORIPL, ICRA Research; Provisional financials for FY2024 are prepared by manually combining financials of ORIPL standalone entity and its subsidiaries, and adjusting for related party transactions

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2025) | | Chronology of rating history for the past 3 years | | |
|---|------------------------|--------------------------|---------------------------------|---|-------------------------|-------------------------------|
| | | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | Jul 30, 2024 | Apr 24, 2023 | - | Feb 28, 2022 |
| 1 Term Loans | Long-term | 30.00 | [ICRA]BBB+(Positive) | [ICRA]BBB+ (Stable) | - | [ICRA]BBB (Stable) |
| 2 Long-term/Short term-Fund-based/Non-fund-based facilities | Long-term / Short-term | 379.50 | [ICRA]BBB+(Positive) / [ICRA]A2 | [ICRA]BBB+ (Stable)/ [ICRA]A2 | - | - |
| 3 Long-term/Short-term fund-based facilities | Long-term / Short-term | - | - | - | - | [ICRA]BBB (Stable)/ [ICRA]A3+ |
| 4 Long-term/Short term non-fund-based facilities | Long-term / Short-term | - | - | - | - | [ICRA]BBB (Stable)/ [ICRA]A3+ |

Source: Company

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Term Loans | Simple |
| Long-term/Short term- Fund-based/Non-fund-based facilities | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---|------------------|-------------|----------|--------------------------|-------------------------------|
| NA | Term Loans | Mar 2018 | NA | Dec 2026 | 30.0 | [ICRA]BBB+(Positive) |
| NA | Long-term/Short term-Fund-based/Non-fund-based facilities | NA | NA | NA | 379.50 | [ICRA]BBB+(Positive)/[ICRA]A2 |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

| Company Name | ORIPL Ownership | Consolidation Approach |
|--|-----------------|------------------------|
| Oriental Rubber Industries Private Limited | NA | Full consolidation |
| Innovation International, Mauritius | 51.00% | Full consolidation |
| Oriental Rubber Industries (SA) Pty Ltd (SA) | 50.99% | Full consolidation |

Source: ORIPL

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Branches



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