

February 28, 2022

Oriental Rubber Industries Pvt. Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	50.0	30.0	[ICRA]BBB (Stable); Reaffirmed
Long-term/Short-term fund based facilities	150.0	150.0	[ICRA]BBB (Stable)/[ICRA]A3+; Reaffirmed
Long-term/Short term non-fund based facilities	100.0	120.0	[ICRA]BBB (Stable)/[ICRA]A3+; Reaffirmed
Total	300.0	300.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in the continued strong operational performance of Oriental Rubber Industries Private Limited's (ORIPL or the company), aided by its diversified product portfolio catering to different end-user industries, established relationships with reputed clientele, new order wins and presence across various geographical markets. The company has withstood the impact of the pandemic and has posted a healthy consolidated revenue growth of 35% in 9M FY2022 on an annualized basis; further, with the improvement in profitability on the back of various cost efficiency measures and limited capex outgo, the company's credit metrics have also witnessed a gradual improvement. An expectation of healthy demand from end user segment in various geographies is likely to continue to aid ORIPL's earnings growth prospects going forward. The ratings continue to draw comfort from longstanding experience of the promoter group; strong position of the company in the conveyor belt industry, especially in the domestic market and strong share of replacement business in the overall revenue pie, providing stability to the revenues of the company.

The operations are, however working capital intensive in nature (due to elongated receivables and longer lead time for imported raw-material). Further, the company faces competition in the industry from large incumbents as well as unorganized players catering to the unorganized segment, although ORIPL caters to the organized segment mainly. The company is susceptible to volatility in raw material prices, although it is able to insulate itself to a large extent by passing on the increase in material costs to its customers. The operations are also prone to the cyclicity of the industry, although ORIPL's long standing relationship and demonstrated ability to increase wallet share with its key customers mitigates some impact of cyclicity in some of its end user industries.

The Stable outlook takes into consideration the established relationships of the company with its customers, which is expected to help it report healthy revenue and earnings growth over the medium term, and maintain a healthy credit profile.

Key rating drivers and their description

Credit strengths

Strong market position in the conveyor belt industry in the domestic market- With expected revenues of over Rs.600 crore in FY2022, the company is one of the largest manufacturers of conveyor belts in the country. The company is present across the textile reinforced and steel reinforced conveyor belts. Its large scale and product diversity lends significant advantages over small unorganised players in garnering bulk orders from the reputed customers.

Healthy product, geographical and customer diversification- The company offers various products under both textile reinforced and steel reinforced conveyor belts. With exports constituting over 50% of total sales, revenues are geographically well diversified. Further, the company caters to the needs of reputed companies, exhibiting healthy customer diversification and low counterparty risk.

Presence in replacement segment lends stability to revenue- The replacement cycle for textile reinforced conveyor cables, which constitutes majority of market demand, is three years. A healthy replacement order book signifies strong customer relationship and stable revenue streams when compared to project revenues. The company derives majority of its revenues from the replacement segment signifying healthy revenue stability.

Credit challenges

Working capital intensive nature of operations- Owing to high level of exports (resulting in longer receivable cycle) and longer lead time in procuring raw materials (resulting in high inventory), company's working capital cycle is elongated in nature. The company maintains an adequate level of inventory to insulate itself against the global supply chain challenges. Consequently, the company has to rely on bank borrowings to fund its working capital requirement, with utilization of bank working capital lines remaining high. The company is in the process of obtaining enhanced working capital lines, with a view of improving its liquidity buffer going forward.

Pricing flexibility remains limited on account of competition- The conveyor belt industry is characterised by presence of several large competitors, especially subsidiaries of global tyre majors like Michelin SA and Continental AG, as well as from several small and mid-sized unorganised players. However, the company generally shuns catering to the unorganized segment. Consequently, on account of competition, company's pricing flexibility remains could remain limited.

Some exposure to volatility in raw material prices- ORIPL remains exposed to raw material price risks, mainly rubber prices,. The company generally enters into back-to-back contract for raw material purchases, thereby mitigating some impact of price volatility.

Liquidity position: Adequate

The company's liquidity profile is adequate supported by expectations of healthy cash accruals (to the tune of ~Rs. 50.0 crore in FY2023), along with undrawn working capital lines of Rs.17.3 crore and free cash of Rs.0.5 crore as at December 2021. Against these sources of funds, the company has debt repayments of Rs. 6.0 crore and moderate capex plans of Rs. 13.7 crore in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade ORIPL's rating if there is sustained improvement in the scale of operations, profitability and return indicators on a sustained basis along with reduction in working capital intensity.

Negative factors – ICRA could downgrade ORIPL's rating if there is sharp deterioration in operating profits leading to weakening of liquidity profile and credit metrics on a sustained basis. Specific credit metrics that could lead to a downward pressure on ratings include Interest coverage lower than 2.5 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, 2021, the company had 2 subsidiaries which are all enlisted in Annexure-2.

About the company

Oriental Rubber Industries Pvt. Ltd. (ORIPL) 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, Fertilizers, Mining etc. The company also exports to North America, Europe, Australia, Southern Africa and the Middle East. ORIPL is a professionally managed, family owned company and has been in this business for the past 70 years. Currently the operations of the company are being managed by Mr. Vikram Makar and Mr. Vishal Makar jointly.

Key financial indicators (audited)

ORIPL Consolidated	FY2020	FY2021	9m FY2022*
Operating Income (Rs. crore)	550.1	539.1	548.1
PAT (Rs. crore)	35.3	39.2	-
OPBDIT/OI (%)	10.3%	12.7%	10.1%
PAT/OI (%)	6.4%	7.3%	-
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.7	1.8
Total Debt/OPBDIT (times)	3.4	2.8	2.7
Interest Coverage (times)	2.5	3.8	4.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						Feb 28, 2022	Feb 03, 2021	Jan 07, 2021	Aug 07, 2019
1	Term Loans	Long-term / Short-term	30.00	25.34	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)/	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
2	Long-term/Short-term fund based facilities	Long-term	150.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-
3	Long-term/Short term non fund based facilities	Short-term	120.00	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-

*Update on reason for delay in periodic surveillance was published on Nov 24, 2020

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Long-term/Short-term fund based facilities	Simple
Long-term/Short term 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Term Loan -1	Mar 20, 2018	NA	Apr 05, 2023	1.50	[ICRA]BBB(Stable)
NA	Term Loan -2	Dec 19, 2018	NA	Dec 05, 2023	2.00	[ICRA]BBB(Stable)
NA	Term Loan -3	Nov 02, 2020	NA	Nov 05, 2025	4.91	[ICRA]BBB(Stable)
NA	Term Loan -4	Dec 09, 2021	NA	Dec 05, 2026	5.00	[ICRA]BBB(Stable)
NA	Term Loan -5	Feb 24, 2016	NA	Jan 31, 2022	3.58	[ICRA]BBB(Stable)
NA	Term Loan -6	Nov 05, 2020	NA	Nov 05, 2025	8.35	[ICRA]BBB(Stable)
NA	Term Loan -7	NA	NA	NA	4.66	[ICRA]BBB(Stable)
NA	Long-term/Short-term fund based facilities	NA	NA	NA	150.00	[ICRA]BBB(Stable)/ [ICRA]A3+
NA	Long-term/Short term non fund based facilities	NA	NA	NA	120.00	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ORIPL Ownership	Consolidation Approach
Oriental Rubber Industries Private Limited	100.0%	Full consolidation
Innovation International, Mauritius	51.00%	Full consolidation
Oriental Rubber Industries (SA) Pty Ltd (SA)	50.99%	Full consolidation

Source: ORIPL annual report FY2021

Note: ICRA has taken a consolidated view of the parent (ORIPL) and its subsidiaries while assigning the ratings.

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