April 24, 2023

Oriental Rubber Industries Pvt. Ltd.: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	30.0	30.0	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long-term/ Short-term – Fund-based facilities	150.0	-	-
Long-term/ Short-term – Non-fund based facilities	120.0	-	-
Long-term/Short term – Fund-based/ Non-fund based facilities	-	379.50	[ICRA]BBB+ (Stable)/ [ICRA]A2; Upgraded from [ICRA]BBB (Stable)/ [ICRA]A3+
Total	**300.0**	**409.50**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in ratings factors in Oriental Rubber Industries Private Limited's (ORIPL's or the company's) strong operational performance over FY2022 and 9M FY2023 supported by healthy demand from its end-user industries and expectations of this trend to sustain, going forward. The company benefits from a diversified product portfolio catering to different end-user industries, established relationships with 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 posted a healthy revenue growth of 35% in FY2022, which continued into FY2023 (28% increase over FY2022), driven by healthy demand from its key customers and supporting improvement in its return indicators 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 is expected to sustain, going forward. The ratings also continue to draw comfort from the longstanding experience of the promoter group, 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. An expectation of healthy demand from end-user segments in various geographies, especially for replacement, is likely to continue to aid ORIPL's earnings growth prospects, going forward.

The operations are, however working capital intensive in nature due to elongated receivables and longer lead time for imported raw material, thereby leading to reliance on external borrowings to meet its working capital requirements. Further, the company faces competition in the industry from large incumbents as well as small & mid-sized players; although ORIPL largely caters to the organised segment, insulating it to a large extent from competition from urorganised players and resultant pricing pressures. The company's profitability is also susceptible to volatility in raw material prices and forex rates, although it is able to pass on the increase in 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 cyclicality of the mining, steel and power industries, although ORIPL's established relationships and demonstrated ability to increase wallet share with its key customers mitigate impact of cyclicality in some of its end-user industries.

The Stable outlook on the long-term rating considers ORIPL's established relationships with its customers, which is 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 amongst the leading manufacturers of conveyor belts in the country, with an established presence in the textile reinforced conveyor belt segment, along with a growing presence in the steel reinforced conveyor belt segment. Its large scale and product diversity lends significant advantages over small mid-sized players in garnering orders from reputed customers, in both domestic and overseas markets.

Healthy product, geographical and customer diversification – ORIPL benefits from a well-diversified revenue profile, with presence across various product segments and reputed clientele across geographies. In terms of its product portfolio, the company offers various products under both textile reinforced and steel reinforced conveyor belts, which have different applications. Further, with exports constituting over 60-70% of its total sales, revenues are geographically well diversified, with limited dependence on any particular market. Furthermore, with the company catering to the needs of reputed industrial houses in the domestic market, and with the export markets mainly through distributors with long standing relationships, it benefits from healthy customer diversification and low counterparty risk.

Revenues being mainly generated from replacement segment lends stability to revenues – The replacement cycle for textile reinforced conveyor cables, which constitutes most of its sales, is about three to four years, whereas it is longer at five to seven years for steel reinforced conveyor belts. A healthy replacement order book signifies strong customer relationships and more stable revenue streams than project revenues, which are generally lumpy in nature. The company derives about 80-90% of its revenues from the replacement segment, signifying healthy revenue stability and visibility.

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, with utilisation of working capital lines in the range of 80-90%. However, the company has increased its sanctioned working capital limits from banks during the previous fiscal, providing it with some buffer for growth.

Pricing flexibility remains limited on account of competition – The conveyor belt industry is characterised by 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, in certain pockets on account of stiff competition, the company's pricing flexibility remains limited.

Exposure to volatility in raw material prices and forex rates– ORIPL remains exposed to raw material price risks, mainly rubber prices, which is its key raw material. The company generally enters into back-to-back contracts for raw material purchases, thereby mitigating some impact of raw material price volatility. Further, the company is susceptible to fluctuations in forex rates, given that 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 (to the tune of ~Rs. 70-80 crore annually), along with undrawn working capital lines of Rs. 45.6 crore as on February 28, 2023, and free cash of Rs. 3.5 crore as on December 31, 2022. Against these sources of funds, the company has debt repayments of Rs. 4.2 crore and capex plans of Rs. 35-40 crore in FY2024 towards augmentation of its capacity, which are expected to be funded comfortably from existing sources of liquidity.

Rating sensitivities

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

Negative factors – ICRA could downgrade ORIPL's rating if there is sharp deterioration in operating profits leading to weakening of its 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 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, 2022, 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 business for the past 75 years. Currently, the operations of the company are jointly managed by the third-generation promoters, Mr. Vikram Makar and Mr. Vishal Makar.

Key financial indicators (audited)

ORIPL Consolidated	FY2021	FY2022
Operating income	539.1	728.7
PAT	39.2	52.4
OPBDIT/OI	12.7%	10.7%
PAT/OI	7.3%	7.2%
Total outside liabilities/Tangible net worth (times)	1.6	1.5
Total debt/OPBDIT (times)	2.7	2.6
Interest coverage (times)	3.7	4.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 22, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 24, 2023	-	Feb 28, 2022	Feb 03, 2021
1	Term Loans	Long-term	30.0	16.4	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)/
2	Long-term/Short-term fund-based facilities	Long-term / Short-term	-			-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+
3	Long-term/Short term non-fund-based facilities	Long-term / Short-term	-			-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+
4	Long-term/Short term- Fund-based/Non-fund-based facilities	Long-term / Short-term	379.50	191.3	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

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 I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	O/s Rating and Outlook
NA	**Term Loans**	March 20, 2018	NA	Dec 2026	30.0	[ICRA]BBB+(Stable)
NA	**Long-term/Short term-Fund-based/Non-fund-based facilities**	NA	NA	NA	379.50	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

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

Source: *ORIPL annual report FY2022*
Note: *ICRA has taken a consolidated view of the parent (ORIPL) and its subsidiaries while assigning the ratings.*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Sruthi Thomas
+91 124 4545822
sruthi.thomas@icraindia.com

Kinjal Shah
+91 22 61143442
kinjal.shah@icraindia.com

Karan Punjabi
+91 22 61693358
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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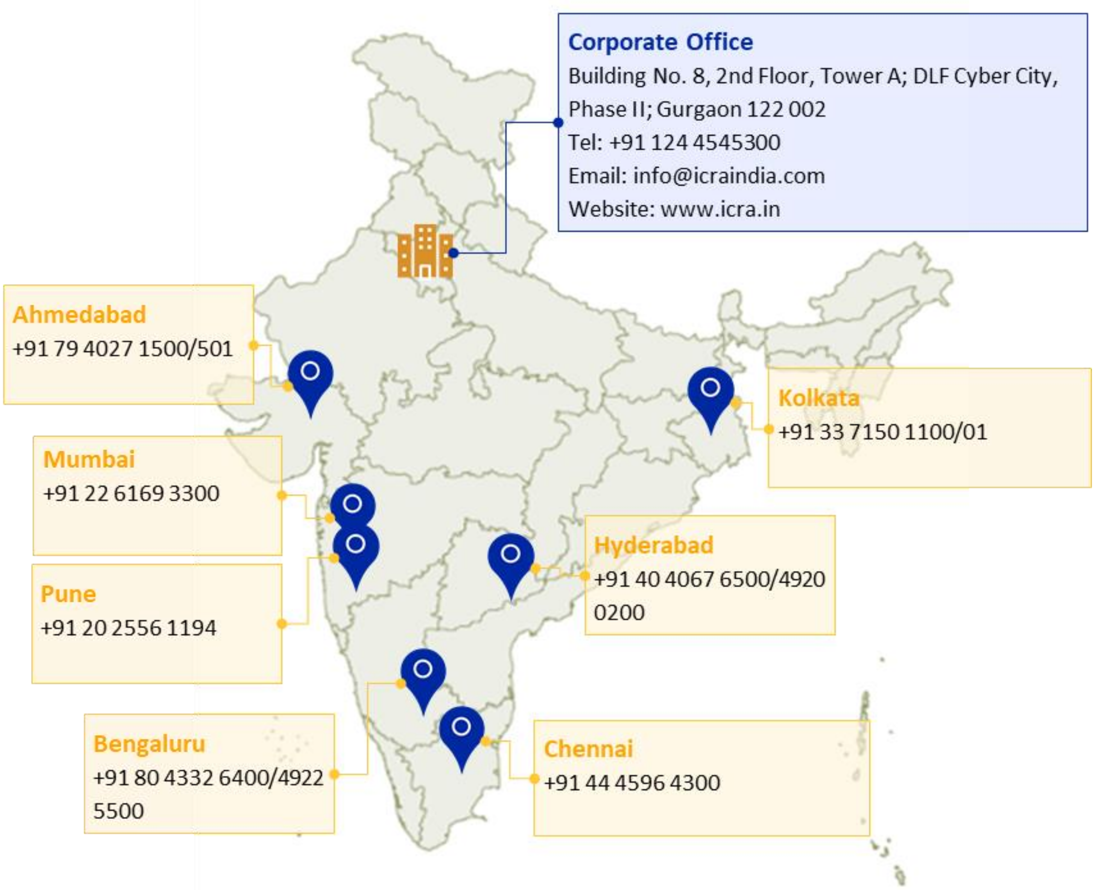

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