

Press Release

Oriental Engineering Works Private Limited

November 06, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 29.33 Cr.
Long Term Rating	ACUITE BB+/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.29.33 crore bank facilities of Oriental Engineering Works Private Limited (OEWPL).

Haryana-based OEWPL was incorporated in 1933 as Karma Engineers in Lahore – India (undivided). Subsequently the company has transferred its operations to India after partition in 1947. The company is promoted by Mr. Raman Saluja, Mr. Satish Chandra Saluja, Mr. Gayatri Saluja, Ms. Divya Khanna, Ms. Sunita Saluja and Ms. Samira Saluja. Initially the company was engaged in the manufacturing of cold start horizontal Diesel Engine however OEWPL is currently into manufacturing of hydraulic jacks, cylinders, pumps, power packs among others for the construction and mining industries via the manufacturing facilities located in Yamuna Nagar (Haryana).

The company has executed variety of projects for reputed clients such as Reliance and ITC Limited.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Oriental Engineering Works Private Limited (OEWPL) for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

OEWPL is promoted by Saluja family viz. Mr. Raman Saluja, Mr. Satish Chandra Saluja, Mr. Gayatri Saluja, Ms. Divya Khanna, Ms. Sunita Saluja and Ms. Samira Saluja all of whom are seasoned players in the industry having an experience of over two decades. The company has an established track record with more than eight decades of operations in the region of Haryana. The long track record of operations and experienced management has allowed the company to maintain healthy long standing relations with its customers and suppliers.

Acuité believes that OEWPL will continue to benefit from its established presence in the aforementioned industry and the promoter's demonstrated ability to scale up the operations across various cycles.

- **Moderate financial risk profile**

The company's financial risk profile is moderate, marked by above average net worth, low gearing and average debt protection metrics.

The net worth is above average estimated at around Rs.16.45 crores as on March 31, 2019. The net worth levels have seen significant improvement over the last three years through FY 2019 on account of healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing levels of 0.41 times as on March 31, 2017. The leverage levels continue to remain low to around 0.40 times as on March 31, 2019. The company's cash accruals are to the tune of about Rs.5.76 crores have supported in minimizing the reliance on external debt lead to healthy gearing and debt levels

of 0.40 times and Rs. 6.64 crores as on March 31, 2019. The cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.3.36-3.54 crores which are comfortable to service its repayment obligations of around Rs.0.42 crores while supporting incremental working capital requirements. As a result, the gearing however is expected to moderate. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 0.87 times and 7.43 times, respectively. Further the revenues for the current year stood at around Rs. 21.00 crores with an outstanding order book of ~Rs. 22.00 crores as on 31st October 2019.

Acuite expects the financial risk profile to remain moderate over the medium term on account of healthy accretion to reserves.

Weaknesses

- **Working capital intensive operations**

OEWPL's working capital operations are intensive as is reflected by its gross current asset (GCA) days of around 157 days for FY2019 as against 165 days in the previous year. The company maintains inventory levels of around 29 days. The debtor's collection period stood at 88 days as against 92 days in the previous year. Further, the creditor days stood at 92 days in FY2019. As a result, the reliance on working capital limits has increased, leading to higher utilization of its bank lines. Acuité expects the operations of the company to remain working capital intensive on account of the high debtor collection period maintained by the company.

- **Intense competition:**

The iron and steel industry is a highly fragmented industry and there is large number of organized and unorganized players which has led to high competition in the industry. The company faces competition from few large players as well as numerous players in the unorganized segment. Also on account of its manufacturing nature of business, the entry barriers are low, leading to stiff competition for the company.

Rating Sensitivity Factor

- Growth in revenue, while improvement in the profitability margins
- Elongation of working capital operations leading deterioration in financial risk profile and liquidity

Material Covenants

None

Liquidity Position

OEWPL has adequate liquidity marked by comfortable net cash accruals to major maturing debt obligations. The company generated cash accruals of Rs. 5.76 crores during FY2019. The cash accruals of the company are estimated to be around Rs.3.36-3.75 crores against repayment obligations of around Rs. 0.42 crore for the period 2020-22. The cash credit limit of the company remains utilized at around 70-75 per cent during the last six month period ended September 2019. The company maintains unencumbered cash and bank balances of Rs.1.21 crore as on March 31, 2019. The current ratio of OEWPL stood average at 1.19 times as on March 31, 2019. Acuité believes that the liquidity of OEWPL is likely to remain adequate over the medium term on account of comfortable cash accruals against repayment obligations over the medium term.

Outlook: Stable

Acuité believes that OEWPL will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry and longstanding operations. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability, while diversifying its revenue profile and sustains its capital structure. Conversely, the outlook may be revised to 'Negative' if there is stretch in its working capital management or larger than-expected debt-funded capex or drop in profitability while penetrating into newer territories leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	52.99	32.48	31.90
EBITDA	Rs. Cr.	8.48	4.59	2.39

PAT	Rs. Cr.	4.77	1.19	1.14
EBITDA Margin	(%)	16.00	14.13	7.49
PAT Margin	(%)	9.01	3.65	3.56
ROCE	(%)	36.03	22.60	9.30
Total Debt/Tangible Net Worth	Times	0.40	0.19	0.41
PBDIT/Interest	Times	7.43	5.72	3.06
Total Debt/PBDIT	Times	0.78	0.52	1.95
Gross Current Assets (Days)	Days	157	165	109

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Aug-2018	Cash Credit	Long Term	5.50 ^A	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.70 (Reduced from Rs.1.21 crore)	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.80 (Reduced from Rs.1.21 crore)	ACUITE BB+/Stable (Reaffirmed)
	Standby Line of Credit	Short Term	0.50	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	4.95 (Enhanced from Rs.0.50 crore)	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	3.80 (Enhanced from Rs.1.53 crore)	ACUITE A4+ (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	5.71	ACUITE BB+/ Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	2.00	ACUITE BB+/ Stable (Assigned)
	Bank Guarantee	Short Term	5.37	ACUITE A4+ (Assigned)
21-Jun-2017	Cash Credit	Long Term	5.50 (Enhanced from Rs.5.00 crore)	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.21 (Enhanced from Rs.2.74 crore)	ACUITE BB+/Stable (Reaffirmed)

	Term Loan	Long Term	1.00	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	1.53 (Enhanced from Rs.1.25 crore)	ACUITE A4+ (Reaffirmed)
11-Feb-2016	Cash Credit	Long term	5.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long term	2.74	ACUITE BB+/Stable (Assigned)
	Forward cover limit	Short term	0.25	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.25	ACUITE A4+ (Assigned)

[^]Includes sublimit of export packing credit /packing credit in foreign currency to the extent of Rs. 1.50 crore; bills discounting backed by LC to the extent of Rs. 3.50 crore and Bills discounting (Non-LC) to the extent of Rs. 1.50 crore

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50 [^]	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.70 (Reduced from Rs.1.21 crore)	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.80 (Reduced from Rs.1.21 crore)	ACUITE BB+/ Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.95 (Enhanced from Rs.0.50 crore)	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.80 (Enhanced from Rs.1.53 crore)	ACUITE A4+ (Reaffirmed)
Proposed working capital Demand loan	Not Applicable	Not Applicable	Not Applicable	5.71	ACUITE BB+/ Stable (Reaffirmed)
Proposed term loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable

					(Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.37	ACUITE A4+ (Reaffirmed)

[^]Includes sublimit of export packing credit /packing credit in foreign currency to the extent of Rs. 1.50 crore; bills discounting backed by LC to the extent of Rs. 3.50 crore and Bills discounting (Non-LC) to the extent of Rs. 1.50 crore

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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