

Press Release

Oriental Engineering Works Private Limited

January 24, 2022



Rating Assigned, Reaffirmed and Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	ACUITE BBB- Reaffirmed & Withdrawn	-
Bank Loan Ratings	3.73	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	20.60	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	29.33	-	-
Total Withdrawn Quantum (Rs. Cr)	1.50	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.25.60 Cr. bank facilities of Oriental Engineering Works Private Limited (OEWPL). The outlook is '**Stable**'.

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.3.73 Cr. bank facilities of Oriental Engineering Works Private Limited (OEWPL). The outlook is '**Stable**'.

Acuite has reaffirmed & withdrawn its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.1.50 Cr. bank facilities of Oriental Engineering Works Private Limited (OEWPL). The outlook is '**Stable**'.

Rationale for reaffirmation of ratings

The rating continues to drive comfort from the extensive experience of the promoters in the line of business, established relationships with its customer and supplier base, along with the moderate financial risk profile and adequate liquidity. The rating nonetheless remains constrained on account of intensive working capital requirements, modest scale of operations, and deterioration in its profitability indicators on account of stress in the cost structure.

About the Company

Haryana-based Oriental Engineering Works Private Limited (OEWPL) was incorporated in 1933 as Karma Engineers in Lahore – India (undivided). Currently, 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. OEWPL is into the 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).

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of OEWP to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations supported by experienced promoters

OEWP is promoted by the Saluja family viz. Mr. Raman Saluja, Mr. Satish Chandra Saluja, Mr. Gayatri Saluja, Ms. Divya Khanna, Ms. Sunita Saluja, and Ms. Samira Saluja who have an experience of over two decades in the industry. 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 OEWP 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.

Healthy financial risk profile

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

The net worth stood modest at Rs.21.20 crores as on March 31, 2021 while improving on a Y-O-Y basis over the last three years through FY2021 on account of healthy accretion to reserves. The company has followed a conservative financial policy in the past, the same is reflected through its comfortable gearing levels of 0.14 times as on March 31, 2021 as against 0.26 times as on March 31, 2020. Total Outside Liabilities/Total Net Worth (TOL/TNW) has also shown significant improvement to 0.76 times as on March 31, 2021, as compared to 1.12 times as on March 31, 2020. Further, the Net Cash Accruals to Total Debt (NCA/TD) has also strengthened to 1.52 times in FY2021 as against 1.01 times in FY2020. The coverage indicators have improved on a Y-O-Y basis marked by Interest Coverage Ratio (ICR) at 8.12 times in FY2021 as against 5.16 times for FY2020 while the Debt Service Coverage Ratio (DSCR) stood at 5.28 times in FY2021 as against 4.05 times in FY2020. The improvement is on account of a reduction in overall debt and the borrowing expenses in the entity.

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

Weaknesses

Intensive working capital requirements

OEWP's working capital requirements are intensive while improving on a Y-O-Y basis as is reflected by its Gross Current Assets (GCA) of 147 days for FY2021 as against 190 days in FY2020. OEWP's GCA is characterized by improvement in the inventory holding period of 39 days in FY2021 as against 90 days in FY2020. Nonetheless, debtors' collection period has deteriorated to 94 days in FY2021 as against 80 days in FY2020. Creditors' payment period has also been reduced to 50 days in FY2021 as against 141 days in FY2020 earlier. The fund and non-fund-based short-term working capital limits remain utilized at ~50 to 70 percent for the 6 month period ended December 2021.

Acuité expects the operations of the company to remain working capital intensive on account of the high debtor collection period maintained by the company.

Modest scale of operations impacted by declining margins

While being in the industry for more than 8 decades, OEWP's scale of operations stands modest marked by operating income of Rs.53.28 Cr. in FY2021 as against Rs.44.83 Cr. in FY2020. Further, the modest scale of operations is impacted by deteriorating profitability indicators as reflected in its EBITDA margins of 12.44 percent in FY2021 as against 15.61 percent in FY2020 and PAT margins of 4.81 percent in FY2021 as against 7.11 percent in FY2020. The benefits accrued from the reduction in borrowing costs are nullified by increasing operating costs.

Intense competition aggravated by fragmented nature of the industry

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 Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material covenants

- DSCR greater than 2.57 times
- ICR greater than 6.30 times.

Liquidity Position: Adequate

OEWPL has an adequate liquidity position marked by adequate net cash accruals vis-à-vis its maturing debt obligations. The company generated cash accruals of Rs.4.52 crore while its maturing debt obligations stood at Rs.0.49 crore in FY2021. The cash accruals of the company are expected to be around Rs.5.00-Rs.6.00 crores against repayment obligations of ~Rs.0.42 crore for the period 2021-24. The working capital limits are utilized at ~50-75 percent for the six-month period ended December 2021. The company maintains unencumbered cash and bank balances of Rs.0.70 crore as on March 31, 2021 while the current ratio stood at 1.68 times as on March 31, 2021.

Outlook: Stable

Acuité believes that OEWPL will maintain a 'Stable' outlook in the near to medium term on account of its stable business risk profile supported by its established position in the market and diversified revenue profile. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in its scale of operations, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the entity registers a significant decline in revenues or profitability indicators or if the financial risk profile deteriorates due to a higher-than-expected increase in debt-funded capex/requirements or working capital requirements resulting in deterioration in the overall capital structure.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	53.28	44.83
PAT	Rs. Cr.	2.56	3.19
PAT Margin	(%)	4.81	7.11
Total Debt/Tangible Net Worth	Times	0.38	0.56
PBDIT/Interest	Times	8.12	5.16

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Jan 2020	Term Loan	Long Term	0.70	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	5.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	5.37	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	4.95	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Term Loan	Long Term	2.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	0.80	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Working Capital Demand Loan	Long Term	5.71	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Standby Line of Credit	Short Term	0.50	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	3.80	ACUITE A3 (Upgraded from ACUITE A4+)
06 Nov 2019	Term Loan	Long Term	0.80	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.50	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.80	ACUITE A4+ (Reaffirmed)
	Proposed Term Loan	Long Term	2.00	ACUITE BB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	4.95	ACUITE A4+ (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	5.71	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.37	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	0.70	ACUITE BB+ Stable (Reaffirmed)
	Standby Line of Credit	Short Term	0.50	ACUITE A4+ (Reaffirmed)
31 Aug 2018	Cash Credit	Long Term	5.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	0.70	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	0.80	ACUITE BB+ Stable (Reaffirmed)
	Standby Line of Credit	Short Term	0.50	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	4.95	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	3.80	ACUITE A4+ (Reaffirmed)
	Proposed Working Capital Demand Loan	Long Term	5.71	ACUITE BB+ Stable (Assigned)
	Proposed Term Loan	Long Term	2.00	ACUITE BB+ Stable (Assigned)
		Short		

	Bank Guarantee	Term	5.37	ACUITE A4+ (Assigned)
21 Jun 2017	Cash Credit	Long Term	5.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	1.21	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	ACUITE A4+ (Reaffirmed)
11 Feb 2016	Term Loan	Long Term	2.74	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4+ (Assigned)
	Derivative Exposure	Short Term	0.25	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.25	ACUITE A4+ (Assigned)

*Consists of sublimit of LC facility of Rs.1.25 Cr. and SBLC facility of Rs.1.00 Cr.

^Consists of sublimit of EPC/PCFC up to Rs.2.50 Cr. and EBUC/EBR/FBP up to Rs.5.00 Cr.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.60	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Term Loan	29-06-2021	7.65	30-06-2025	1.50	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	09-10-2018	11.45	30-04-2026	0.94	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	09-10-2018	11.45	31-12-2021	0.70	ACUITE BBB- Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Term Loan	09-10-2018	11.45	31-12-2021	0.80	ACUITE BBB- Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Working Capital Term Loan	29-06-2021	7.40	30-06-2025	1.29	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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