

Press Release

Orient Steel & Industries Limited (OSIL)

July 27, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs. 31.00 Cr.
Long Term Rating	ACUITE BB-/Stable (Downgraded)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and reaffirmed the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 31.00 crore bank facilities of Orient Steel & Industries Limited. The outlook is '**Stable**'.

Orient Steel & Industries (OSIL), established in 1957 manufactures steel casting (used in rail wagons), CR strips, LHB coaches, sheet piles used in irrigation projects for dredging in dams and soil retention. The manufacturing facilities are located in West Bengal and Haryana.

The rating has been downgraded on account of lower than expected revenues and stretched in working capital cycle. The revenue of the company have declined to Rs.49.00 crore in FY2018 (Prov.) as against of Rs.84.42 crore. The revenue decline is being reflects by the closure of HR section in Faridabad Unit. The working capital cycle of the company also stretched marked by high gross current asset (GCA) days of 286 in FY2018 (Prov.) as against of 125 days in last year.

Key Rating Drivers

Strengths

Experienced management and long track record of operation:

OSIL has been in operations since 1957. The director of the OSIL, Mr. Nilesh Rajgharia, Mrs. Shuchi Rajgharia, Mr. Nawal Kishore Rajgharia having an experience of more than four decades in iron and steel industry.

Above average financial risk profile:

The above average financial risk profile of the company is marked by healthy Networth, moderate gearing and healthy debt protection metrics. The net worth of the company stood healthy at Rs.30.50 crore in FY2018 (Prov.) as compared to Rs.30.21 crore in FY2017, mainly on account of retention of current year profit. The gearing of the company stood moderate at 1.40 times in FY2018 (Prov.) as compared to 1.22 times in FY2017. The total debt of Rs.42.72 crore consists of short-term debt of Rs.13.15 and short term unsecured loan from promoters of Rs.29.00 and long term debt of Rs. 0.57 crore. The interest coverage ratio (ICR) of the company stood comfortable at 1.83 times in FY2018 (Prov.) as compared to 1.56 times in FY2017. The debt service coverage ratio (DSCR) of the company stood comfortable at 1.21 times in FY2018 (Prov.) as compared to 1.49 times in FY2017. The net cash accruals against the total debt stand low at 0.08 times in FY2018 (Prov.) compared to 0.09 times in FY2017.

Weaknesses

Working capital intensive nature of operation:

The working capital intensive nature of operations is marked by high gross current asset (GCA) days of 286 days in FY2018 (Prov.) as compared to 202 days in FY2017. The inventory days are high at 196 days in FY2018 (Prov.) as compared to 125 days in FY2017. The high inventory days are mainly on account of inherent nature of iron & steel industry. The debtor days stand moderate at 91 days in FY2018 (Prov.) and

77 days in FY2017 respectively.

Customer concentration

Orient Steel caters mainly to the Indian Railways and derives more than 90% of its revenues from the Railways. Hence the company is dependent on the Railways for its orders and is exposed to significant customer concentration.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

Acuite believes that OSIL will maintain a Stable outlook in the medium term on account of its experienced management and established operational track record. The outlook may be revised to Positive if the company registers higher-than-expected growth in revenue and net cash accruals and improvement in its working capital management. Conversely, the outlook may be revised to Negative in case of lower-than-expected growth in revenue and profitability or deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.00	84.42	137.39
EBITDA	Rs. Cr.	6.71	9.73	10.73
PAT	Rs. Cr.	0.29	0.08	2.02
EBITDA Margin	(%)	13.69	11.53	7.81
PAT Margin	(%)	0.60	0.09	1.47
ROCE	(%)	8.14	10.92	14.26
Total Debt/Tangible Net Worth	Times	1.40	1.22	1.28
PBDIT/Interest	Times	1.83	1.56	2.03
Total Debt/PBDIT	Times	4.81	3.46	3.01
Gross Current Assets (Days)	Days	286	202	150

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Manufacturing Entities – <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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Apr-2018	Cash Credit	Long Term	INR 15.00	ACUITE BB (Indicative)
	Bill Discounting	Short Term	INR 0.50	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	INR 3.50	ACUITE A4+ (Indicative)

	Letter of Credit	Short Term	INR 12.00	ACUITE A4+ (Indicative)
06-Mar-2017	Cash Credit	Long Term	INR 15.00	ACUITE BB/ Stable (Reaffirmed)
	Bill Discounting	Short Term	INR 0.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	INR 3.50	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	INR 12.00	ACUITE A4+ (Reaffirmed)
08-Mar-2016	Cash Credit	Long Term	INR 15.00	ACUITE BB/ Stable (Assigned)
	Bill Discounting	Short Term	INR 0.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	INR 3.50	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	INR 12.00	ACUITE A4+ (Assigned)

*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	15.00	ACUITE BB-/Stable (Downgrade)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in
Abhishek Dey Analyst - Rating Operations Tel: 033-66201208 abhishek.dey@acuteratings.in	

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