

Press Release

Oren Hydrocarbons Private Limited (OHPL)

30 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	SMERA BBB/ Outlook: Stable
Short Term Rating	SMERA A3+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BBB**' (read as **SMERA triple B**) and **short term rating of 'SMERA A3+' (read as SMERA A three plus)** to the above mentioned bank facilities of Oren Hydrocarbons Private Limited (OHPL). The outlook is '**Stable**'.

Oren Hydrocarbons Private Limited (OHPL) was incorporated in 1990 and is based in Chennai. The company promoted by Mr. Rizwan Ahmad and Mrs. Sayeeda Ahmad is engaged in manufacturing and export of high quality Specialised Drilling Chemicals including Mud chemicals used in oil and gas exploration.

Key rating drivers

Strengths

Company's established track record of operations backed by promoters' experience: The promoters have a significant presence in the global drilling chemical segment through the Oren Group and also its associate companies in Middle East and USA. The Chairman & Managing Director of the group, Mr. Rizwan Ahmad has a Degree in Geology and Post Graduate Diploma in Hydrogeology. Mr. Ahmad has more than two decades of rich experience in the Oil and Drilling Chemical Supply Industry. He is well supported by second line of management comprising Mr. Mahaboob Subhahani- Director and Mr. B. Saravanan- Executive Director who have experience of more than two decades.

Reputed customer base and diversified product profile: Oren Group has a diversified product profile which includes a wide range of chemicals required in fuel drilling such as Barite, Polyanionic Cellulose (PAC), Starch and other liquid products such as Lubricants, Defoamers, and Corrosion Inhibitors. With such a diversified product range and its long experience in the drilling chemicals market, the Oren Group has been able to tap an established customer base which includes some of the largest global oilfield services companies namely Baroid Saudi (Halliburton), Canadian Energy Service, OIES (Schlumberger), Oman Oil Industrial Supply Service among others.

Healthy net worth and an expected improvement in debt coverage to strengthen financial profile: Oren Group has a healthy net worth of Rs. 137.5 Cr as on March 31, 2017 supported by unsecured loans from the promoters (considered as quasi-equity). This has led to an

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improvement in gearing to 1.76 times as on March 31, 2017 (provisional) from 1.92 times as on March 31, 2016. The total outside liabilities/tangible net worth (TOL/TNW) is adequate and stood at 2.75 times as on 31 March, 2017 (Provisional) as against 2.95 times as on 31 March, 2016. The Group has an aggregate debt of Rs. 241.9 Cr as on March 31, 2017 which primarily comprises working capital borrowings of Rs. 202.1 Cr and a gradually declining amount of term loans. While the debt coverage indicators remained relatively modest in FY 2017, they are expected to improve supported by better profitability over the medium term.

Weaknesses

Working capital intensive operations: Oren Group's operations are working capital intensive marked by high Gross Current Asset (GCA) of 303 days in FY2017 (provisional) compared to 223 days in FY2016. The GCA days are mainly driven by high inventory of 133 days in FY2017 (provisional) compared to 123 days in FY2016; this is on account of a diverse product profile and several manufacturing locations. The average bank limit utilisation for the past six months have been high and stood at ~80 percent. SMERA believes that the efficient working capital and liquidity management will be crucial for Oren Group maintaining a stable credit profile.

Profitability linked to cyclical in the oil industry and competitive landscape: The Group's operations remain exposed to the cyclical in the global oil industry, which vary with the general economic cycle as well as the supply dynamics of oil and gas. While a firm up of global oil and gas prices is expected to improve the realisations and operating margins of Oren Group in the near term, they are likely to remain vulnerable to the global market trends. Although the group enjoys a healthy market share in India, it faces competition from the large global manufacturers of drilling fluid chemicals mainly located at Europe and North America.

Exposure to foreign exchange fluctuations: Oren Group's major revenues accrue from exports, mainly to the Middle-East and North America. This makes it exposed to risks associated with foreign exchange fluctuations in absence of an adequate hedging mechanism.

Analytical approach:

SMERA has consolidated the business and financial risk profiles of Oren Hydrocarbons Private Limited (OHPL), Oren Mud Chemicals Private Limited (OMCPL), Oren Mud Chemicals Pulverising Private Limited (OMCPPL), Oren Hydrocarbons Far East SDN BHD, (OREN FE), Oren Hydrocarbons LLC, USA hereinafter referred to as the Oren Group. The consolidation is on account of the common management, strong operational and financial synergies and similarities in the lines of their businesses.

Outlook – Stable

SMERA believes that Oren Group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its promoter's experience, its track record in the drilling chemical industry and its diversified product profile. The outlook may be revised to 'Positive' in case the group registers a healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity

Oren Group manufactures and trades in mud chemicals used for drilling in oil and gas industry. On a consolidated basis, it reported revenues of Rs. 422.1 Cr and a net profit of Rs. 2.8 Cr in FY 17 as compared to Rs. 471.6 Cr and Rs. 17.4 Cr in FY 16.

Key Financials*:

	Unit	FY17 (Provisional)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	422.08	471.63	465.38
EBITDA	Rs. Cr.	48.41	56.94	54.68
PAT	Rs. Cr.	2.83	17.37	14.41
EBITDA Margin	(%)	11.47	12.07	11.75
PAT Margin	(%)	0.67	3.68	3.10
ROCE	(%)	8.78	14.58	30.04
Total Debt/Tangible Net Worth	Times	1.76	1.92	1.96
PBDIT/Interest	Times	1.92	3.13	3.15
Total Debt/PBDIT	Times	5.00	3.91	3.65
Gross Current Assets (Days)	Days	303	223	213

* Consolidated Oren Group, FY 17 results are provisional

Any other information: Not Applicable

Applicable Criteria

- Default Recognition – <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities – <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments – <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years): Not Applicable

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Export packing Credit/ Pre shipment credit in Foreign Currency *	Not Applicable	Not Applicable	Not Applicable	35.00	SMERA A3+ (Assigned)
Export packing Credit/ Pre shipment credit in Foreign Currency **	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3+ (Assigned)
Export packing Credit/ Pre shipment credit in Foreign Currency	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3+ (Assigned)

Export packing Credit/ Pre shipment credit in Foreign Currency ***	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3+ (Assigned)
Export packing Credit/ Pre shipment credit in Foreign Currency	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A3+ (Assigned)
Pre Shipment Financing ****	Not Applicable	Not Applicable	Not Applicable	35.00	SMERA A3+ (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB/ Stable Assigned
Cash Credit *****	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB/ Stable Assigned
Buyers Credit #	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3+ (Assigned)
Letter of Credit ##	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3+ (Assigned)
Letter of Credit ###	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A3+ (Assigned)
Letter of Credit ####	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3+ (Assigned)
Short Term (Proposed)	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA A3+ (Assigned)

* Includes sublimit of FBP/FBD/ EBRD to the extent of Rs. 35.00 crore, Cash Credit to the extent of Rs. 5.00 crore

** Includes sublimit of Cash Credit to the extent of Rs. 10.00 crore

*** Includes sublimit of Cash Credit to the extent of Rs. 5.00 crore

**** Includes sublimit of Overdraft facility to the extent of Rs. 10.00 crore

***** Includes sublimit of EPC/ PCFC and FBD/ FBP/ PSCFC to the extent of Rs. 20.00 crore

Includes sublimit of Letter of Credit to the extent of Rs. 10.00 crore

Includes sublimit of Bank Guarantee to the extent of Rs. 5.00 crore

Includes sublimit of Bank Guarantee to the extent of Rs. 5.00 crore

Includes sublimit of Buyers Credit to the extent of Rs. 10.00 crore

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ABOUT SMERA

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