5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

ORIENTAL RAIL INFRASTRUCTURE LTD

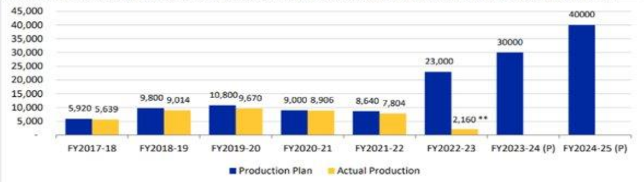
WHAT WE LIKE

STRONG TAILWINDS + COMPETITIVE POSITIONING:

The govt. is incurring huge capex in improving railways & increasing its share of total freight movement from 25% to 40%. **As a result, the size of wagon tenders has grown by 3X from 9000 p.a. pre-covid to 25,000 wagons Post-covid. Further, the industry is highly consolidated with only 16 players owing to A)High entry barriers in the form of regulatory difficulties in getting RDSO approvals & B)Economies of scale benefitting top players.**

On the competitive side, company has 30% market share in seat berths & a strong order book of 3600 wagons which exceeds its current annual capacity showcasing strong positioning.

Exhibit 1: Past trend of production plan and actual production of wagons by Indian manufacturers for Indian Railways



***till June 2022, IR orders are recently awarded; production are expected to pick up from Q3 of FY2023.*
Source: ICRA Research

HEALTHY GROWTH PROSPECTS:

- **Current order book stands at 2000 Crs** (1800 Crs for wagons) which is massive considering its FY23 revenues stood at 300 Crs, thus providing healthy future visibility.Further, the latest capacity expansion will help in catering to the surge in wagons orderbook.
- Change in contract pricing to include a **price escalation clause is expected to reduce the margins volatility going forward.**

ORIENTAL RAIL INFRASTRUCTURE LTD										
Rs Cr	Mar-12	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Sales	-	81	85	97	130	139	267	220	173	325
EBITDA	-	3	8	16	19	20	44	31	30	25
EBITDA Margin	#DIV/0!	4%	9%	16%	15%	15%	16%	14%	18%	8%

EXPERIENCED PROMOTER GROUP:

The company is promoted by Mr. Saleh Mithiborwala (chairman & CFO) with other family members viz. Mr. Vali Mithiborwala (Director) and Mr. Karim Mithiborwala (Managing Director) have been involved in the business for the past 3 decades.
Further, promoters have consistently supported the business by infusing funds through interest-free unsecured loans of Rs.82.14 crore as well as participating in equity fund raises.

On the Operational front, the promoters have ensured that they invest in the fast-growing wagons industry at the inflection point & strong R&D expenditure is incurred to make the business model more robust.

IMPROVING BALANCE SHEET STRENGTH:

The company **recently raised around 85 Crs from Marquee investors like Mukul Mahavir Agarwal** among others which will help in providing much-needed funds for executing the contracts & easing the debt pressure on the business.

WHAT WE DON'T LIKE

CLIENT CONCENTRATION RISK:

The company has high dependence on government tenders which is a very risky business owing to the difficulty in collections & Govt. budget. Since, other players have greater share coming from private players, therefore, it remains to be seen how the company will diversify its client base.

RAW MATERIAL VOLATILITY RISK:

Company's raw materials include veneer (for seats & Berths) & steel (for wagons) which is procured from open market. Therefore,high volatility in wood & steel prices can impact its margin profile which is visible from its past performance. However, some risk is mitigated owing to the nature of new contracts.

ELONGATED WORKING CAPITAL CYCLE:

The company's FY23 cash conversion cycle stood at a mammoth 315 days due to a high inventory period led by a longer processing period coupled with difficulties in the collection of receivables.

	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
Debtor Days	82	92	108	94	92	68	98	105	78
Inventory Days	78	160	176	220	318	185	161	396	274
Days Payable	71	107	93	146	95	60	72	101	38
Cash Conversion Cycle	**88**	**145**	**191**	**168**	**315**	**193**	**187**	**400**	**314**

POOR PAST TRACK RECORD & EXECUTION RISKS:

The company has had a poor past track record when it comes to operational performance & capital allocation which was partly due to poor tenders from Railways leading to less order book.

Compounded Sales Growth	
10 Years:	%
5 Years:	20%
3 Years:	7%
TTM:	128%

Compounded Profit Growth	
10 Years:	%
5 Years:	-23%
3 Years:	-49%
TTM:	-59%

Stock Price CAGR	
10 Years:	46%
5 Years:	40%
3 Years:	83%
1 Year:	297%

Return on Equity	
10 Years:	%
5 Years:	18%
3 Years:	12%
Last Year:	3%

However, even after FY20, when the order book stood strong, the revenue ramp-up & subsequent margins & cashflows have not been up to the mark. Therefore, it remains to be seen how will the company execute its humongous order book & generate strong cashflows.

BALANCE SHEET RISKS: :

Owing to limited cashflow generation, huge debt in the balance sheet owing to big capacity expansion projects & high working capital intensity & weak operational performance so far, the company's balance sheet is highly fragile where D/E > 3 times!
Further, **given its probable sales growth exceeding its self-sustaining growth rate** (i.e. the growth rate exceeding its steady state ROE), the company faces high equity dilution risks going forward.

STRETCHED VALUATIONS :

The company's current Enterprise value of 2000 Crs at a TTM sales of 450 Crs might be potentially discounting several years of earnings going forward.

We at SSS believe that current valuations don't provide any major margin of safety, however, the stock might do well going forward if the execution is strong & government's new tender announcements are favourable for the industry.