Orient Cement Limited (Revised)

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	672.00	CARE AA-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	75.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial Paper	100.00	CARE A1+	Reaffirmed
Commercial Paper (Carved out)*	150.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.
*Carved out of the sanctioned working capital limits

Rationale and key rating drivers

The reaffirmation of the ratings to the bank loan facilities and instruments of Orient Cement Limited (OCL) continues to derive benefit from its experienced promoters and management along with being part of an established group, diversified regional presence and integrated operations with captive limestone mines and power plants. Furthermore, the company has healthy capital structure and debt coverage metrics. These strengths are partially tempered by OCL's moderate market position in a highly competitive industry as well as its presence in Southern India cement market which is characterised with overcapacity and its operating profitability being vulnerable to demand-supply dynamics as well as volatility in the input prices.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained growth in top-line by around 15%-20% p.a. while maintaining PBILDT margin above 20% on a sustained basis.
- Increase in capacity leading to improved diversification and market share across regions.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in profit before interest, lease rentals, depreciation and taxation (PBILDT) margins below 13% leading to weakening of debt coverage indicators.
- Substantial decline in the sales volume resulting in lower capacity utilisation of plants and decline in the total operating income (TOI).
- Any large-scale debt-financed capex, leading to deterioration in debt protection metrics, particularly net debt to EBITDA over 2.5x.

Analytical approach: Standalone

Outlook: Stable

The rating outlook "Stable" indicates the expected sustenance of its moderate competitive position and operating efficiency in the cement business along with healthy financial risk profile. Despite expected incremental debt for capital expenditure over the medium term, CARE Ratings Limited (CARE Ratings) expects the financial risk profile to remain healthy.

Detailed description of the key rating drivers:

Key strengths

Established group with experienced promoters and management: OCL is a part of the C.K. Birla group, which has 37.90% stake in the company, as on June 30, 2023. The C.K. Birla group is a leading industrial group with major presence in diverse range of industries such as auto ancillary products, engineering products, building products, cement, paper, fan and electrical items. The promoters have been operating the cement business for almost four decades thereby having considerable track record. Also, the company's Managing Director, Mr Deepak Khetrapal, has extensive industry experience.

Diversified regional presence with revenues largely derived from Maharashtra, followed by Telangana and Madhya Pradesh: The company's market position is strengthened by its diversified regional presence which allows the company to limit the cyclicality in any particular region. The company's major market is Maharashtra followed by Telangana, Karnataka and Madhya Pradesh. The company also has modest presence in Gujarat. The company is able to cater different regions supported by its plant locations in Devapur (Telangana), Chittapur (Karnataka) and split grinding unit in Jalgaon (Maharashtra). However, further geographical diversification is a key monitorable with additional capacities both greenfield and brownfield expected over the long term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Backward integration in the form of captive limestone mines and captive power plants: OCL meets majority of its power requirements through its coal-based captive power capacity of 95 MW. The company sources limestone from its mines located nearby the respective plants in Telangana and Karnataka. Therefore, backward integration and proximity to the major raw material sources endows the company with operational benefits, thereby reducing its cost of production. Furthermore, CARE Ratings notes that the company has been striving to improve fuel flexibility at its plants, enabling utilisation of more alternate fuels such as rice husk, carbon black, medical waste, etc., to optimise the fuel costs. OCL has also set up a solar power plant of 13.5 MW which substituted 59% of the power requirements with renewable energy in Jalgaon (Maharashtra) plant in FY23. Additionally, the company is setting up waste heat recovery system (WHRS) in Chittapur (Karnataka) for power generation which is expected to commission in the short term and is estimated to lead to savings of about ₹3 crore per month when fully utilised. Additionally, the company has entered into Share Subscription and Shareholders' Agreement with Ardeur Renewables Private Limited and Cleantech Solar India OA 2 Pte. Ltd on July 21, 2023 for acquisition of 28.52% stake in the share capital of Ardeur Renewables Private Limited for putting up two solar power plants with capacity of 16 MWdc in Chittarpur, Karnataka (Project 1) and capacity of 5.5 MWdc in Jalgaon, Maharashtra (Project 2), under Captive Scheme. The execution of the projects is expected over the medium term and would increase its green power mix which was 14.4% in FY23.

Healthy capital structure and debt coverage metrics: The company has robust net worth at ₹1543 crore (₹1467 crore) and overall gearing at 0.33x (0.28x) as on March 31, 2023 (2022). In FY24, no major incremental debt is expected to come, rather significant debt retirement is expected to happen by way of scheduled term loan repayments.
Over the medium term, the company has projects lined up for capacity expansion, which may require debt, however, these projects details are not finalised yet with clearances still awaited from relevant authorities.
Supported by healthy capital structure, the company's debt coverage metrics also have been healthy with interest coverage and net debt to PBILDT of 9.65x (11.53x) and 1.19x (0.61x) respectively in FY23 (FY22). CARE Ratings expects the solvency ratios to remain healthy over the medium term despite expected incremental debt.

Key weaknesses

Moderate competitive position in a highly competitive industry: The cement industry is marked by significant regional play with intense competition from various moderate to large sized players. The company registered growth in total operating income (TOI) of 7.72% year-on-year (Y-o-Y) in FY23 to ₹2938 crore aided by modest rise in the volumes sold with growth of 5% Y-o-Y to 5.76 (5.48) million tonnes and improvement in realisations to ₹5,094 (₹4,959) per tonne in FY23 (FY22). The company's volume growth was modest on account of disruption in Q2FY23 due to excessive rainfall in Southern India and tilt towards OPC demand because of booming infrastructure segment. In Q4FY23, the company's Chittapur clinker capacity was almost fully utilized due to higher OPC sales. The trade to non trade mix was 52%:48% in FY23 against 61%:39% in FY22. CARE Ratings believe that if the trade mix remain tilted towards non-trade segment due to significant demand from infrastructure segment on account of upcoming general elections, volumes may grow modestly in FY24.
The company's presence in few regions is in line with placement of its manufacturing facilities which keeps its competitive position moderate.

Presence in Southern India cement market which is characterised with overcapacity: Southern India cement market is characterised by overcapacity on account of significant limestone reserves and installed cement capacities in Southern India vis a vis demand. The company has partial presence there leading to moderate capacity utilisation as well as limited ability for passing incremental pricing.

Moderate cement capacity utilisation: Though the company improved its volumes in FY23, the company's cement capacity utilisation continued to remain moderate at 68% in FY23 against 66% in FY22. Considering excess capacity installed in the southern India market, the company is dependent on the western and central parts of India which generates significant portion of its revenue. Moderate capacity utilisation limits optimal operational leverage.

Moderate operating margins vulnerable to demand-supply dynamics as well as volatility in input prices: The company's operating profitability margin moderated significantly in FY23 to 12.41% from 21.73% in FY22. Accordingly, PBILDT per tonne reduced to ₹633 per tonne in FY23 against ₹1082 per tonne in FY22. This was majorly on account of the increased costs particularly with regards to increased power and fuel costs and limited proportional pass-through of costs to consumers. The Russian-Ukraine war had significantly pushed up power & fuel costs and with rising inflation the same couldn't be passed off fully. Power and Fuel Cost increased to ₹1,611 per tonne in FY23 from ₹1,140 per tonne in FY22, while freight & packaging was ₹1,366 (₹1,299) per tonne in FY23 (FY22). The power & fuel costs in FY24 isn't expected to significantly reduce on account of company's reliance on domestic coal for Devapur plant. Furthermore, the OPC sales have increased which requires more clinker. Hence, CARE Ratings believe operating profitability is expected to show limited improvement to around 13%-14% in FY24.
[*All the costs per tonne ratios are based on cement and clinker sales*]

Liquidity: Strong - OCL's strong liquidity is supported by healthy cash & cash equivalents along with significant generation of GCA and moderate bank limit utilisation. The company has generated gross cash accruals (GCA) of ₹259 crore in FY23, which CARE Ratings expects to be around ₹320-340 crore in FY24. Against, this the company has repayment obligations of about ₹162 crore in FY24 and the principal repayment obligations will reduce substantially in FY25. The company has cash and cash equivalents of ₹69 crore as on March 31, 2023. With rise in incremental working capital requirements due to rising input costs and slight stretch in debtor cycle, cash credit utilisation was 52% over the 12 months through June 2023, which is moderately low usage. This may reduce going forward on account of release of working capital due to lower fuel costs. The company has healthy overall gearing and current ratio, which provides headroom for incremental debt if required.

Environment, social, and governance (ESG) risks: The cement sector has a significant impact on the environment owing to higher emissions, waste generation and water consumption. This is because of energy intensive cement manufacturing process and its high dependence on natural resources, such as limestone, coal, etc. as key raw materials. The sector has social impact due to its nature of operations affecting local community and health hazards involved.
OCL has been focusing on energy management, emission reduction, raw material procurement and waste management to reduce its ecological footprint.

Environment: In FY23, around 14.4% of the total energy consumption was from renewable energy. Furthermore, 13.2% of alternative fuel substitution rate was achieved. Further, the company used 27% of sub-grade limestone. It is in the process of establishing waste heat recovery system of 10.1 MW for its Chittapur plant, while it has also announced additional plans to increase renewable power consumption.

Social: The company has undertaken various initiatives for community development. Its initiatives led to 50,000+ dispensary and other medical camp beneficiaries and 3550+ students benefitted in FY23. 100% of the workers are covered under health and accident insurance.

Governance: As on March 31, 2023, the Board consists of 9 (nine) Members of whom 1 (one) is an Executive Director, i.e., Managing Director & CEO and 8 (eight) members are Non-Executive Directors including 2 Women Directors. Amongst the 8 (eight) Non-Executive Directors, 6 (six) are Independent Directors including 1 (one) Woman Independent Director.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

Incorporated in July 2011, Orient Cement Ltd (OCL) is a part of the C.K. Birla group promoted by late B M Birla. The company was incorporated to acquire the cement division of Orient Paper & Industries Ltd (OPIL). Pursuant to the approval of Honourable Orissa High Court, the cement undertaking of OPIL was transferred to OCL on a going concern basis w.e.f. April 01, 2012. The cement division of OPIL, i.e., OCL was set up in 1979, and the division's first cement plant began production in 1982. The company's cement plants having aggregate installed capacity of 8.5 million tonnes per annum (mtpa) are located at Telangana, Maharashtra and Karnataka. The company sells cement under the brand name of 'Birla A1' and 'Birla A1 StrongCrete'. The company has recently launched another premium product named 'Birla A1 OrientGreen'.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	2,727.06	2,937.55	829.60
PBILDT	592.72	364.68	103.62
PAT	263.25	122.82	37.03
Overall gearing (times)	0.28	0.33	-
Interest coverage (times)	11.53	9.65	10.72

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
Please note overall gearing and net debt/PBILDT ratios factor in security deposits and Creditors on LC.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)*	-	-	-	7-364 days	150.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	100.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	450.00	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	December 2025	222.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	75.00	CARE AA-; Stable / CARE A1+

**Currently, outstanding commercial paper is nil.*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	222.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Nov-22)	1)CARE AA-; Positive (31-Aug-21)	1)CARE AA-; Stable (25-Aug-20)
2	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (29-Nov-22)	1)CARE A1+ (31-Aug-21)	1)CARE A1+ (25-Aug-20)
3	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (29-Nov-22)	1)CARE A1+ (31-Aug-21)	1)CARE A1+ (25-Aug-20)
4	Fund-based - LT-Cash Credit	LT	450.00	CARE AA-; Stable	-	1)CARE AA-; Stable (29-Nov-22)	1)CARE AA-; Positive (31-Aug-21)	1)CARE AA-; Stable (25-Aug-20)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	75.00	CARE AA-; Stable /	-	1)CARE AA-; Stable / CARE A1+	1)CARE AA-; Positive / CARE A1+	-

				CARE A1+		(29-Nov-22)	(31-Aug-21)	

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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