Orient Cement Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	537.40 (Reduced from 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. 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 PBILDT over 2.25x on a sustained basis.

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 comfortable.

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, 2024. 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). It should be noted that over the past few fiscals, the company's revenue from Maharashtra has increased on account of healthy real estate and

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

infrastructure growth in Maharashtra, particularly, Pune and Mumbai. Geographical diversification is a key monitorable with additional capacities both greenfield and brownfield expected over the long term.

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 has also recently added 10.1 MW Waste Heat Recovery System at its Chittapur (Karnataka) plant. The company has also set up solar capacities for Jalgaon facility under captive scheme of 17.2 MWdc which provides majority of the power consumed by Jalgaon plant. Further the company is setting up Solar Power plant of 16 MWdc at its Chittapur plant under Captive Scheme. The green power mix in power consumption increased from 14.4% in FY23 to 17.50% in FY24. 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, pharma waste, etc., to optimise the fuel costs.

Healthy capital structure and debt coverage metrics: The company has robust net worth at ₹1690 crore (₹1543 crore) and overall gearing at 0.17x (0.33x) as on March 31, 2024 (2023). In FY25, 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, once the projects are received regulatory approval, the company is expected to contract debt upto 80% of the capex amount. But the management maintains currently that the capex may be funded by 60% debt. Once, the capex starts the overall gearing is expected to moderate, however, is still expected to remain comfortable.
Supported by healthy capital structure, the company's debt coverage metrics also have been healthy with interest coverage and net debt to PBILDT of 13.28x (9.65x) and 0.44x (1.16x) respectively in FY24 (FY23). CARE Ratings expects the solvency ratios to remain comfortable 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 8.57% year-on-year (Y-o-Y) in FY24 to ₹3189 crore aided by modest rise in the volumes sold with growth of 6.46% Y-o-Y to 6.132 (5.76) million tonnes and improvement in realisations to ₹5,182 (₹5,094) per tonne in FY24 (FY23). The company's volume growth was modest on account of Telangana assembly elections and general elections. The demand in the areas in and around Telangana, particularly in B2C segment. The company's non-trade sales increased in FY24. The trade to non trade mix was 46%:54% in FY24 against 52%:48% in FY23. This is also partly on account of company's strategy to focus on realisation against the deeper cuts being observed in the market considering its product portfolio philosophy. Accordingly, the company observed volume de-growth of 14.66% in Q1FY25 Y-o-Y while realizations dipped just by 1.1% in Q1FY25 Y-o-Y. H1FY25 is expected to be relatively weaker for the cement industry on account of general elections, heatwaves and significant rainfall. Hence, overall, CARE expects volumes is expected to see flat to modest growth in FY25. Similar expectation is held for realizations in FY25.
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 FY24, the company's cement capacity utilisation continued to remain moderate at 72% in FY24 against 68% in FY23. This is in line with average pan-India capacity utilization. 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 improved in FY24 to 14.22% from 12.41% in FY23. Accordingly, PBILDT per tonne improved to ₹740 per tonne in FY24 against ₹633 per tonne in FY23. Pet coke and coal costs have significantly softened over the past 18 months, which has been gradually leading to moderation in power & fuel cost per tonne to ₹1458 in FY24 compared to ₹1611 in FY23. The reduction in power & fuel cost was modest on account of company's reliance on domestic coal for Devapur plant. Furthermore, the fuel cost is also relatively higher on account of higher OPC cement sales leading to higher utilization of fuel since clinker requirement is high in OPC. Lower pet coke costs observed currently is expected to provide further dip in fuel cost for Chittapur plant in FY25. Freight & packaging was ₹1431 (₹1420) per tonne in FY24 (FY23). CARE Ratings believe operating profitability is expected to be around 13%-14% in FY25 with significant sensitivity to the movement of realizations in OCL's core market areas and company's strategy towards the same.
[*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 ₹318 crore in FY24, which CARE Ratings expects to be above ₹300 crore in FY25. Against, this the company has repayment obligations (including lease liabilities) of about ₹63 crore in FY25 and the principal repayment obligations will reduce substantially in FY25. The company has cash and cash equivalents of ₹77 crore as on March 31, 2024. Cash credit utilisation was 22.50% over the 12 months through June 2024, which is modest usage. 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 FY24 (FY23), around 17.50% (14.4%) of the total energy consumption was from renewable energy and WHRS. This is expected to increase in FY25 on account of WHRS being available in Chittapur for almost 11 months at optimum capacity, commissioning of Solar Power plants under Captive Scheme at both Jalgaon (additional capacity) and Chittapur. Furthermore, 17% (13.2%) of alternative fuel substitution rate was achieved.
Social: The company has undertaken various initiatives for community development. The company has spent about Rs.17.97 crores on community development expenditure (CSR & RR). Company spent Rs.6.41 crores in CSR programmes and Rs.11.56 crores under R&R activities on projects related to rural infrastructure development, education and other community development programmes. The company's efforts towards community healthcare led to 31,500+ villagers being benefitted.
With regards to its personnel, the company continues to maintain its zero fatality for six consecutive years.
Governance: As on March 31, 2024, the Board of Directors (BOD) consists of 8 Members. 5 of them are independent directors, 25% women are on BOD. The BOD attendance was 94% and there were zero incidents of non-compliance with product and service information in FY24.

Applicable criteria

- Definition of Default
- Liquidity Analysis of Non-financial sector entities
- Rating Outlook and Rating Watch
- Manufacturing Companies
- Financial Ratios – Non financial Sector
- Short Term Instruments
- Cement

About the company and industry

Industry classification

Macroeconomic 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 names of 'Birla A1', 'Birla A1 StrongCrete' and 'Birla A1 OrientGreen'. The company has recently launched premium product named 'Birla A1 Dolphin'.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2,937.55	3,189.16	696.27
PBILDT	364.68	453.58	96.00
PAT	122.82	174.85	36.71
Overall gearing (times)	0.33	0.17	-
Interest coverage (times)	9.65	13.28	17.05

A: Audited UA: Unaudited; Note: these are latest available financial results
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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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	87.40	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	75.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	87.40	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Oct-23)	1)CARE AA-; Stable (29-Nov-22)	1)CARE AA-; Positive (31-Aug-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (29-Nov-22)	1)CARE A1+ (31-Aug-21)
3	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (29-Nov-22)	1)CARE A1+ (31-Aug-21)
4	Fund-based - LT-Cash Credit	LT	450.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Oct-23)	1)CARE AA-; Stable (29-Nov-22)	1)CARE AA-; Positive (31-Aug-21)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST	75.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (09-Oct-23)	1)CARE AA-; Stable / CARE A1+ (29-Nov-22)	1)CARE AA-; Positive / CARE A1+ (31-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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

Annexure-6: List of entities consolidated: Not applicable

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