Orient Cement Limited (Revised)

November 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	672.00 (Reduced from 1,013.06)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Positive
Long Term / Short Term Bank Facilities	75.00	CARE AA-; Stable / CARE A1+ (Double A Minus ; Outlook: Stable/ A One Plus)	Reaffirmed; Outlook revised from Positive
Total Bank Facilities	**747.00 (₹ Seven Hundred Forty-Seven Crore Only)**		
Commercial Paper	100.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (Carved out)*	150.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**250.00 (₹ Two Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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. Further, the company has healthy capital structure and debt coverage metrics. These strengths are partially tempered by OCL's moderate competitive positive in a highly organised and competitive industry, presence in Southern India cement market which is characterised with overcapacity and its operating profitability being vulnerable to demand-supply dynamics as well volatility in the input prices.
The outlook has been revised from 'Positive' to 'Stable' majorly driven by increasing cost pressures, particularly, power & fuel cost faced by industry with limited ability to fully pass on the same to the customers in inflationary environment. Accordingly, the company's operating profitability has significantly moderated in H1FY23 in comparison with FY21 and FY22 FY22 (refers to the period April 1 to March 31). Although, the same may improve partially going forward, on overall basis the profitability margins may remain below the earlier envisaged levels in FY23. Additionally, the company faced demand pressure particularly from southern region particularly due to extended rainfall observed in current fiscal year i.e. FY22. Overall the volume sales is also estimated to be lower than previous expectation. Consequently, the gross cash accrual (GCA) is estimated to moderate leading to lower flexibility in executing capital expenditure plans through internal accruals over the medium term.

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 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.

Detailed description of the key rating drivers

<u>Key Rating Strengths</u>

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 September 30, 2022. The C.K. Birla group is a leading industrial group with major presence in diverse range of industries such as automobiles, auto ancillary products, engineering products, chemical, cement, paper, fan and electrical

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

items. The promoters have been operating the cement business for over three 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 and Madhya Pradesh. The company also has presence in Karnataka and 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.

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 operating benefits, thereby reducing its cost of production. Furthermore, it is noteworthy 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 targeting to substitute 50% of the power requirements with renewable energy in Jalgaon (Maharashtra) plant. Additionally, the company is setting up waste heat recovery system (WHRS) in Chittapur (Karnataka) for power generation which may further reduce operational costs.

Healthy capital structure and debt coverage metrics: The company has robust net worth at ₹1,466.38 crore (₹1,245.85 crore) and overall gearing at 0.22 (0.64) as on March 31, 2022 (2021). The company's overall gearing strengthened in FY22 on account of prepayment of term loans and managed its working capital requirement through internal accruals. In FY23, the company is expected to fund its ongoing cost-saving projects, ie, WHRS and railway fly ash handling project in Chittapur (Karnataka) of ₹120 crore through debt which is expected to be contracted in H2FY23. Over the medium to long term, the company has significant capacity enhancement plans through brownfield project in Devapur (Telangana), split grinding unit in Tiroda (Maharashtra) and greenfield project in Rajasthan. However, the execution of these projects will be dependent on the approvals from relevant authorities. Although these projects are expected to be debt heavy, the same might be contracted over the long term leading to expected continuation of the company's healthy capital structure.
Supported by healthy capital structure and profitability margins over the last two fiscal years, the company's debt coverage metrics also have been healthy with interest coverage and total debt to PBILDT of 11.53x (5.89x) and 0.45x (1.45x) respectively in FY22 (FY21). Both these metrics are expected to remain healthy over the medium term.

Key Rating Weaknesses

Moderate competitive position in a highly organised and 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 17.31% year-on-year (Y-o-Y) in FY22 to ₹2727 crore aided by rise in the volumes sold with growth of 8% Y-o-Y to 54.5 lakhs in FY22 and improvement in realisations by 8% Y-o-Y to ₹4982 per tonne. Though, the growth has been tapering in the recent quarters, the company, overall, is expected to moderately grow in FY23 as well supported by increase in realizations to pass on the significant hike in input prices. The demand has moderated in FY23, particularly due to extended rainfall especially in Southern India adversely impacting real estate and infrastructural activities. However, the same maybe partially covered up in H2FY23.
The company's presence in few regions in line with its manufacturing facilities keeps its competitive position moderate which is expected to continue over the medium term.

Presence in Southern India cement market which is characterised with overcapacity: Significant limestone reserves and installed cement capacities in Southern India in comparison to the demand in the same region, the company partially operates in the market having cement overcapacity. This leads to moderate capacity utilisation as well as limited ability for passing incremental pricing.

Moderate capacity utilisation: Though, the company improved its volumes in FY22 registering growth of 8% Y-o-Y to 54.5 lakh, the company's capacity utilisation continued to remain moderate at 66% in FY22 against 63% in FY21. Considering excess capacity installed in the Southern India market, the company is dependent on Western and Central parts of India which generates significant portion of its revenue. Further in H1FY23, extended rainfall has impacted the demand further, with relatively better demand emanating from Maharashtra. Moderate capacity utilisation limits the 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 slightly in FY22 by ~200 bps to 21.73%. Accordingly, PBILDT per tonne remained almost flat at ₹1087 per tonne in FY22 against ₹1092 per tonne in FY21. This was majorly on account of the increased costs particularly with regards to increased power and fuel in H2FY22 and limited proportional pass-through of costs to consumers. From the peak of 27.18% in Q1FY22, the PBILDT margin moderated to 19.28% in Q4FY22 and further to 10.54% in H1FY23. The Russian-Ukraine war has significantly pushed up power & fuel costs and with rising inflation the same couldn't be passed off fully. Power and Fuel Cost increased by 28% to ₹1145 per tonne, while freight & packaging and registered modest growth of 8%

to ₹1360 per tonne in FY22. Cost of raw material (including consumables) remained muted at ₹648 per tonne in similar period. However, the significant impact has been observed in H1FY23 with power & fuel cost rising to ₹1617 per tonne. This rise in power & fuel cost impacted the PBILDT per tonne by almost similar quantum i.e. ₹539 per tonne in H1FY23.
Coal which is utilized as both for power generation and kiln along with pet coke (used in kiln) which is a crude oil derivative has seen significant rise in prices which is expected to keep even freight cost high over the near term. Further, inflationary pressure in the economy along with significant hike in prices of cement over the past two fiscal years has limited the ability to pass on these cost increase to customers.
Operating profitability is expected to moderate to around 14%-15% in FY23 supported by expected recovery in H2FY22 and may further moderately improve over the medium term.
[*Kindly note that all the costs per tonne ratios are based on cement sales*]

Industry outlook

CARE Ratings Limited (CARE Ratings) expects the industry to move at a high single-digit growth on account of the government thrust for infrastructure and strong traction in the capital expenditure. Various initiatives by the government along with several MSME schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure will create some stress on the profitability of cement companies. The resultant price hikes by cement producers in H2FY23 and sustenance of those are key monitorable. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

ESG profile: 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 FY22, around 5% of the total energy consumption was from renewable energy. Furthermore, 15.1% waste was recycled, while 16.5% of alternative raw materials was used. 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 invested in a solar plant with the objective of substituting around 50% of its power needs in the grinding unit in Jalgaon.

Social: The company has undertaken various initiatives for community development. Its initiatives led to 200+ dispensary beneficiaries per day and 1500+ students benefitted yearly. 100% of the workers are covered under health and accident insurance.

Governance: The boards of directors constitute 75% of independent directors excluding managing director with 8 years of average time on board of directors. There was 91% average attendance in board meetings in FY22.

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 GCA of ₹464.07 crore in FY22, which is estimated to be around ₹300 crore in FY23 (reduced owing to continued cost pressures). The company has cash and cash equivalents of ₹53 crore as on March 31, 2022 and ₹26.98 crore as on September 30, 2022. The cash and cash equivalents were of ₹150 crore as on March 31, 2021, which were utilised to prepay the debt by about ₹100 crore. With rise in incremental working capital requirements due to rising input costs and slight stretch in debtor cycle, average of maximum cash credit utilisation during the month was 31.05% over the 12 months through July 2022, which is moderately low usage. The company has healthy overall gearing and current ratio, which provides headroom for incremental debt if required.

Analytical approach: Standalone

Applicable criteria

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

About the company

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'.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	2,324.71	2,727.06	1335.26
PBILDT	551.41	592.72	140.78
PAT	214.19	263.25	27.92
Overall gearing (times)	0.64	0.22	0.29
Interest coverage (times)	5.89	11.53	7.60

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of the rated instruments/facilities: Not Applicable

Complexity level of various instruments rated for this company: Annexure-4

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	-	-	-	-	300.00	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2024	372.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	75.00	CARE AA-; Stable / CARE A1+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	372.00	CARE AA-; Stable	-	1)CARE AA-; Positive (31-Aug-21)	1)CARE AA-; Stable (25-Aug-20)	**1)CARE AA-; Stable** (04-Oct-19)
2	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (31-Aug-21)	1)CARE A1+ (25-Aug-20)	1)CARE A1+ (04-Oct-19)
3	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (31-Aug-21)	1)CARE A1+ (25-Aug-20)	1)CARE A1+ (04-Oct-19)
4	Fund-based - LT-Cash Credit	LT	300.00	CARE AA-; Stable	-	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 / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (31-Aug-21)	-	-

*Long term/Short term.

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of 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-4: Bank lender details for this company

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

Note on 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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