Orient Cement Limited

August 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	1,013.06 (Reduced from 1,275.24)	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long-term/Short-term (LT/ST) Bank Facilities	75.00	CARE AA-; Positive / CARE A1+ (Double A Minus; Outlook: Positive/ A One Plus)	Assigned
Total Bank Facilities	**1,088.06 (Rs. One thousand eighty eight crore and six lakh 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 (Rs. Two hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

**Carved out of the sanctioned working capital limits of the company*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Orient Cement Limited (OCL) continues to factor in the experienced promoters and management team, being part of an established group, viz., CK. Birla group with long presence in the cement industry and backward integration in the form of captive limestone mines and captive power plants. The ratings also take note of the improvement in profits in FY21 (refers to the period April 01 to March 31), primarily driven by increase in sales realization and also the improvement in the company's leverage levels as on March 31, 2021, consequent to significant prepayment of term debt.

The ratings are, however, constrained by exposure to volatility in input costs and its presence in a competitive and cyclical cement industry.

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% and PBILDT/MT maintained similar to FY21 levels.
- Increase in capacity leading to improved diversification and market share across regions.
- Improvement in capital structure with overall gearing below unity and Total Debt/PBILDT below 2x on sustained basis.

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

- Decline in PBILDT margins below 14%-15% leading to weakening of debt coverage indicators.
- Substantial decline in sales volume resulting in lower capacity utilisation of plants and decline in the total operating income.
- Any large-scale debt-financed capex, leading to deterioration in capital structure with increase in overall gearing levels (above 1.5x).

Outlook: Positive

The revision in the outlook to 'Positive' takes into account the improvement in operational and financial performance of OCL in FY21 and also during Q1FY22, which is expected to continue going forward supported by positive volume growth and likely sustenance of better realizations in the near term. Though cement sales witnessed moderation during Q1FY22 on a sequential basis due to the impact of Covid-19 second wave, it is to be noted that the same was better on y-o-y basis. As states across India began relaxing lockdown measures from June-July 2021, the demand for cement is expected to improve

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

significantly much like the trend witnessed during last year. As per CARE's estimates, cement production is expected to grow by 4%-7% y-o-y during FY22 after two successive years of de-growth, supported by government's thrust and spending towards infrastructure creation, pent-up urban demand and continuing rural demand. The outlook may be revised to stable if the sales volume and sales realization of cement declines on a sustained basis leading to moderation in profitability.

Detailed description of the key rating drivers

Key Rating Strengths

Established group with experienced promoters and management team
OCL is a part of the C.K. Birla group, which has 37.37% stake in the company, as on June 30, 2021. The C.K. Birla group is a leading industrial group with major presence in diverse range of businesses such as automobiles, auto ancillary products, engineering products, chemical, cement, paper, fan and electrical 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.

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. The mines have sufficient proven reserves to support the operation for about next 35-40 years. Therefore, backward integration and proximity to the major raw material sources endows the company with operating benefits, thereby reducing its cost of production. However, the cement operations remain exposed to volatility in prices of coal and other inputs. Furthermore, it is worthwhile to note that the company has been striving to improve fuel flexibility at its plants, enabling utilization of more alternate fuels such as rice husk, carbon black, medical waste, etc., to optimize the fuel costs.
Also, the company has initiated plans for setting-up of waste heat recovery system (WHRS) unit at its Chittapur plant and has invested in a solar power producer under group-captive mechanism to procure power for its Jalgaon plant, which are expected to keep power & fuel costs under control.

Improved financial performance during FY21
During FY21, OCL's total income declined 4% y-o-y to Rs.2,340 crore due to 13% y-o-y lower volumes on account of Covid-19 pandemic offset by 10% y-o-y improvement in realization. Despite lower volumes, the company's PBILDT increased 42% y-o-y to Rs.566 crore, driven by higher realization and cost-control measures. The PBILDT margin improved y-o-y to 24.21% (PY: 16.34%). Improvement in the margin was also supported by improvement in product mix with increase in blended cement sales. In-line, PAT margin of the company also improved y-o-y to 9.15% (PY: 3.55%).
During FY21, the sales realization improved 10% y-o-y to Rs.4,598/t (PY: Rs.4,167/t) driven by sustained price hikes during the year. On the cost front, aided by cost-control measures such as deferral of discretionary expenditure, renegotiation of rental contracts for its certain offices/godowns, marginal reduction in employee salaries the company, etc., along with lower power & fuel cost during majority of the year, the company's total cost/t increased mere 2% y-o-y. For FY21, the company's PBILDT/t (net of other income) improved 66% y-o-y to Rs.1,087/t driven by aforementioned factors. The sustenance of PBILDT/t at these levels given the competition and cyclicality of the industry will be a key monitorable.
During Q1FY22, the total income increased 67% y-o-y to Rs.693 crore on the back of low base in the previous year (covid impact). The PBILDT margin further improved to 27.17% with sustained price hikes offset by increased cost pressures. Despite Covid-19 second wave impact, sales volume is expected to grow around 20% y-o-y during FY22 owing to expected uptick in demand environment. However, the PBILDT margin is expected to moderate marginally due to rising inputs cost though offset by better realizations.

Improvement in capital structure and coverage indicators with significant prepayment during FY21
With improved financial performance during FY21, the company generated higher accruals leading to significant prepayment of existing term loans. During FY21, the company made repayments amounting Rs.421 crore including prepayment of Rs.340 crore. Consequently, the overall gearing improved to 0.64x as on March 31, 2021 (PY: 1.16x). Debt coverage indicators as well improved y-o-y with interest coverage of 6.05x for F21 (PY: 3.26x) and total debt/PBILDT at 1.41x as on March 31, 2021 (PY: 3.09x). During current year (FY22), the company has further made prepayment amounting Rs.122 crore during 4mFY22 period (refers to April to July).
In the near-to-medium term, the company has plans to expand capacity by 3 million tonne by FY24-FY25, which is estimated at total cost of around Rs.1,600 crore and expected to be funded through means of D:E of 1:1. Considering the same, the company's leverage levels and debt coverage metrics along with the project progress shall remain key monitorables.

Industry outlook

CARE Ratings expects the overall cement production to grow in the range of 4% to 7% in FY22. While states have started lifting restrictions in a phased manner from June onwards, the demand is expected to gain traction on a gradual basis and will be driven primarily by government spending on infrastructure coupled with pick-up in demand from both rural and urban markets as the situation evolves based on the containment of the virus and the progress in the vaccine inoculation drive. However, it is to be noted that the possibility of a third wave of Covid-19 in the near future might affect the industry dynamics again.

Key Rating Weaknesses

Moderate capacity utilization

The company has large exposure to markets like Maharashtra, Telangana and Karnataka. For FY21, the company's cement production declined 15% y-o-y due to decrease in the aggregate cement demand during the year due to Covid-19-induced lockdowns across the country. However, the demand rebounded strongly during the H2FY21 with unlocking of the economy from Q2FY21 onwards and pent-up demand. In-line, the company's total sales during FY21 declined 13% y-o-y. The company's capacity utilization stood at 63% for FY21 (PY: 73%). Although with gradual recovery witnessed q-o-q during FY21, the company's capacity utilization increased to 92% during Q4FY21.

During current year, the company is continuing with its de-bottlenecking project at Devapur plant, which is expected to increase the capacity by 0.5 million tonne by Q2FY22.

Exposure to volatility in input and finished goods prices

While the company has captive mines for limestone, it meets its coal requirement largely through fuel supply agreements and through auctions or open market purchases from the domestic producers as well as imports. The company also supplements coal with pet coke, which it sources by way of imports as well as from the domestic producers. With the company depending on the open market purchases for meeting its raw material requirement, it remains exposed to the risk arising on account of the volatility in the raw material prices. The company also remains exposed to the risk of volatile movement in the price of diesel with respect to freight cost.

Liquidity: Strong

The company had free cash and equivalents of around Rs.150 crore as on March 31, 2021. The company also has sanctioned working capital limits of Rs.300 crore, wherein the average limit utilization stood nil in the last 12-month period ended June 2021 due to comfortable liquidity position. The company has already made principal payments of the existing term loans up to March 2024 installment as on date. This apart, the company has scheduled deferred sales tax loan repayment of Rs.13 crore during FY22.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios - Non-Financial Sector
Rating Methodology - Manufacturing companies
Rating Methodology - Cement Industry

About the Company

Incorporated in July 2011, Orient Cement Ltd (OCL) is a part of the C.K. Birla group promoted by late Mr 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 in 1982 the division's first cement plant began production. The company's cement plants having aggregate installed capacity of 8 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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2,437	2,340
PBILDT	398	566
PAT	87	214
Overall gearing (times)	1.16	0.64
Interest coverage (times)	3.26	6.05

A: Audited

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar 2031	713.06	CARE AA-; Positive
Fund-based - LT-Cash Credit	-	-	-	300.00	CARE AA-; Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	75.00	CARE AA-; Positive / CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	100.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	150.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	713.06	CARE AA-; Positive	-	1)CARE AA-; Stable (25-Aug-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Negative (31-Dec-18) 2)CARE AA-; Stable (07-Jun-18)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (25-Aug-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (07-Jun-18)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (25-Aug-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (07-Jun-18)
4.	Fund-based - LT-Cash Credit	LT	300.00	CARE AA-; Positive	-	1)CARE AA-; Stable (25-Aug-20)	-	-
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	75.00	CARE AA-; Positive / CARE A1+	-	-	-	-

LT/ST: Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Term loans	Detailed explanation
A. Financial covenants	
i Total Debt Gearing	Maximum level of 2.00
ii Debt Service Coverage Ratio	Minimum level of 1.35
iii Interest coverage ratio	Minimum level of 2.50
B. Non financial covenants	
i Annual Audited Financial Statement	The borrower shall furnish to the lender annual audited financial statement as soon as available and in any event within 180 days after end of each fiscal year
ii Un-audited quarterly statement	The borrower shall furnish to the lender unaudited quarterly statements as soon as available and in any event within 60 days after end of each calendar quarter
iii Operation and maintenance of Project assets	The borrower shall maintain, preserve and operate the projects and all of its other properties in good working order and condition in accordance with prudent industry standard and practices

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

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-Term Loan	Simple
4.	Non-fund-based - LT/ ST-BG/LC	Simple

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

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careratings.com

Analyst Contact 1
Name: Ravleen Sethi
Contact no: +91-11-4533 3251
Email ID: ravleen.sethi@careratings.com

Analyst Contact 2
Name: Jasmeen Kaur
Contact no: +91-11-4533 3245
Email ID: jasmeen.kaur@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**