Orient Cement Limited

February 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper (CP) Issue*	150	**CARE A1+ (A One Plus; Under credit watch with developing implications)**	Continues to be on credit watch
Total Facilities	**150 (Rs. One 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 rating assigned to the short-term instruments of Orient Cement Limited (OCL) continues to be on 'credit watch with developing implications' in view of binding offer letter signed by Orient Cement Ltd (OCL) for acquisition of 74% stake in Bhilai Jaypee Cement Ltd from Jaiprakash Associates Ltd and Nigrie cement grinding unit from Jaiprakash Power Ventures Ltd in October 2016. CARE is in the process of evaluating the impact of the event on the credit quality of the company and would take a view on the rating once the exact implication of the said event can be ascertained.

The rating continues to draw support from experienced promoters and management team, established group with a successful and long presence in the cement industry, operational efficiency due to backward integration, satisfactory capacity utilization and satisfactory solvency and liquidity position. The rating also take into account gradual ramp-up of operations of 3.0 mtpa Gulbarga cement plant.

Weak financial performance during FY16 and 9MFY17 mainly on account of weak realisations in the company's key markets due to draught, lower availability of fly ash in Q2FY17 and relatively lower volumes in Q3FY17 on account of demonetization of high value currency notes impacting cement demand and cost pressures, have impacted the cash accruals during the period. The ratings further take into account volatility of the input and finished goods prices and cyclicality of the cement industry.

The ability of the company to improve capacity utilization of the both old and new units, improvement in realizations and the profitability are key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established group with experienced promoters: OCL is a part of G.P. - C.K. Birla Group, which has 37.5% stake in the company. This is a leading industrial group of the country and has major presence in diverse range of products. The promoters have been operating the cement business for a span of over three decades thereby having considerable and vast experience. Also, the company's Managing Director, Mr Deepak Khetrapal has extensive experience.

Satisfactory Capacity Utilization: The company reported volume growth of 8% in FY16 and 26% in 9MFY17. While the overall capacity utilization declined from 82% in FY15 to 74% in FY16 and 64% in 9MFY17; yet the same remained satisfactory considering commissioning of new plant at Karnataka and subdued demand scenario in the company's key market viz. Maharashtra facing draught from two consecutive years.

Backward integration with locational advantage: The company continues to be one of the efficient player with power consumption of 73 kWh per tonne in FY16 as against 77 kWh in FY15. The company meets majority of its power requirements through its coal based captive power capacity of 95MW. Also backward integration and proximity to the

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

major raw material sources helps the company in availing operational advantages and achieving lower cost of sales. However, the cement operations remain exposed to volatility in input prices.

Key Rating Weaknesses

Weak financial performance: OCL's overall gearing ratio increased marginally from 1.15x as on March 31, 2015 to 1.30x as on March 31, 2016 on account of the drawdown of the loan for the new facility at Karnataka. However, the liquidity position of the company remained comfortable with average working capital utilization of about 35% during the period January 2016 to December 2016 and cash and cash equivalents of Rs.41.71 crore as on December 31, 2016.

During FY16, OCL's total operating income declined by 2% Y-o-Y and PBILDT margin declined from 20.15% in FY15 to 12.58% in FY16 and 8.02% in 9MFY17 on account of decline in net sales realization due to challenging industry scenario in the company's key markets. Also PAT declined from Rs.194.78 crore in FY15 to Rs.62.24 crore in FY16 due to decline in PBILDT and increase in interest and depreciation cost. During 9MFY17, the company reported net loss of Rs.48.62 crore and GCA of Rs.42.36 crore as against PAT of Rs.43.89 crore and GCA of Rs.92.76 crore in 9MFY16.

Analytical approach:

Standalone

Applicable Criteria

Rating Methodology-Manufacturing Companies

Rating Methodology - Cement Industry

Financial ratios – Non-financial sector

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Criteria for placing rating on credit watch

About the Company

Incorporated in July 2011, OCL is a part of G.P. - 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 Honorable 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., Orient Cement Limited was setup 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 (commissioned in September, 2015). The company sells cement under the brand name of '*Birla A1*'.

On October 06, 2016, OCL signed binding offer letter for acquisition of 74% stake in Bhilai Jaypee Cement Ltd (BJCL, rated 'CARE D') from Jaiprakash Associates Ltd (JAL, rated 'CARE D') for an enterprise value (EV) of Rs.1450 crore and Nigrie cement grinding unit of Jaiprakash Power Ventures Ltd (JPVL, rated 'CARE D') for an EV of Rs.500 crore. BJCL has cement manufacturing capacity of 2.2 mtpa consisting of a clinkerisation unit in Satna, Madhya Pradesh, and a grinding unit in Bhilai, Chhattisgarh. Nigrie cement grinding unit, housed within JPVL is located in Singrauli area, Madhya Pradesh and has a cement grinding capacity of 2.0 mtpa. The acquisition is subject to satisfactory negotiation and execution of definitive agreements, requisite approvals from SAIL (in case of BJCL, as it holds balance 26% stake), the Competition Commission of India and other relevant regulatory and third party approvals. The acquisition is expected to be funded through a mix of debt and new equity issue, however, the exact funding pattern is yet to be decided. The company expects to complete the transaction in the first half of 2017.

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

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

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

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
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	150.00	CARE A1+ (Under Credit watch with Developing Implications)

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Mar-14) 2)CARE AA- (30-Oct-13) 3)CARE AA (27-Jun-13)
2.	Fund-based - LT-Term Loan	LT	1354.00	CARE AA- (Under Credit Watch)	1)CARE AA- (Under Credit Watch) (19-Oct-16)	1)CARE AA- (04-Dec-15)	1)CARE AA- (11-Nov-14)	1)CARE AA- (30-Oct-13)
3.	Commercial Paper	ST	100.00	CARE A1+ (Under Credit Watch)	1)CARE A1+ (Under Credit Watch) (19-Oct-16) 2)CARE A1+ (16-May-16)	1)CARE A1+ (04-Dec-15)	1)CARE A1+ (11-Nov-14)	1)CARE A1+ (18-Nov-13)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit Watch) (19-Oct-16) 2)CARE A1+ (16-May-16)	1)CARE A1+ (04-Dec-15)	1)CARE A1+ (30-Jan-15)	-

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