Orient Cement Limited (Revised)

March 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1317.00 (reduced from 1353)	**CARE AA- (Double A Minus; Under Credit Watch with Negative Implications)**	**Continues to be on credit watch**
Total	**1317.00 (Rs. One Thousand Three Hundred and Seventeen Crore only)**		
Commercial Paper (CP) issue*	150 **(Rs. One hundred and fifty crore only)**	**CARE A1+ (A One Plus; Under Credit Watch with Negative Implications)**	**Continues to be on credit watch**
Commercial Paper (CP) issue	100 **(Rs. One hundred crore only)**	**CARE A1+ (A One Plus; Under Credit Watch with Negative Implications)**	**Continues to be on credit watch**

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

Detailed Rationale
The rating assigned to the bank facilities and short-term instruments of Orient Cement Limited (OCL) continues to be under 'credit watch with negative implications' in view of definitive agreement 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. 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 ratings continue to draw support from experienced promoters and management team, established group with long presence in the cement industry, operational efficiency due to backward integration and satisfactory capacity utilization. The ratings also take into account improvement in financial position in 9MFY18 as compared to 9MFY17. The ratings, however, are constrained by volatility in profitability margins on account of fluctuating realizations, volatility in the input costs and cyclicality of the cement industry.
The improvement in capacity utilization, improvement in realizations and the profitability, funding structure of proposed acquisition, successful ramp up of operations and impact of the acquisition on the financial profile of OCL are key rating sensitivities

Detailed description of the key rating drivers

Key Rating Strengths
Established group with experienced promoters and management team: OCL is a part of 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 over three decades thereby having considerable experience. Also, the company's Managing Director, Mr Deepak Khetrapal has extensive industry experience.

Satisfactory capacity utilization and significant volume growth: The production volume of the company has increased 25% from 4.44 mtpa in FY16 to 5.55 mtpa in FY17. The increase in production volume is due to commencement of Gulbarga plant. Also, production volume increased 7.61 % from 3.81 mtpa in 9MFY17 to 4.10 mtpa in 9MFY18.
The overall capacity utilization for the FY17 stood at 69% as compared to 74% in FY16. The utilization was lower due to relatively lower capacity utilization in new plant, limited availability of fly ash during Q2FY17, and demonetization of high value currency notes impacting cement volumes during Q3FY17. However, total capacity utilization in 9MFY18 has improved to 68% as compared to 64% in 9MFY17.

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

Backward integration with locational advantage: The company meets majority of its power requirements through its coal based captive power capacity of 95MW. Also backward integration and proximity to the 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

Improvement in financial performance in 9MFY18, although volatility in profitability margins: The company reported total operating income of Rs.1887.42 crore (Rs.1469.98 crore in FY16), net loss of Rs.33.16 crore in FY17 (PAT of Rs.61.97 crore in FY16), GCA of Rs.55.06 crore in FY17 (Rs.138.44 crore in FY16), despite strong volume growth.
The company reported the growth of 25.86% in total operating income from Rs.1286.65 crore in 9MFY17 to Rs. 1619.44 crore in 9MFY18. The company reported the PAT of Rs.31.41 crore in 9MFY18 as compared to net loss of Rs.48.62 crore in 9MFY17. The PBLIDT and PAT margin improved from 8.63% and (-) 3.78% in 9MFY17 to 15.28% and 1.94% respectively in 9MFY18. The company's net sales realization has increased from Rs.3377/tonne in 9MFY17 to Rs.3950/tonne in 9MFY18.
However, there has been decline in financial performance in Q3FY18. PBILDT margin declined to 8.01% and the company reported a net loss of Rs.17.67 crore in Q3FY18, GCA of Rs.14.27 crore on the total operating income of Rs.513.51 crore. The company earlier reported improvement in H1FY18 on account of better sales realizations and high demand but in Q3FY18 due to lower realisations, financial performance declined. Sustainable improvement in performance would be crucial.

Exposure to volatility in input and finished goods prices: While the company has captive mines for limestone, it meets coal requirement largely through FSA and through auctions or open market purchases from the domestic producers. The company also uses pet coke (~29% of total fuel requirement in 9MFY18, ~26% in FY17) which it sources from the domestic producers. With the company depending on the open market purchases for meeting its raw material requirement, it remains exposed to risk arising on account of the volatility in the raw material prices. The company also remains exposed to risk of volatile movement in the price of diesel in the future with respect to freight cost. Furthermore, with the surplus capacity of the cement industry, the price of cement remains susceptible to demand supply dynamics and pricing discipline by the various producers.

Analytical approach:
Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria for placing rating on credit watch
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology – Cement Industry

About the Company
Incorporated in July 2011, OCL is a part of 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'.
OCL has signed a definitive agreement 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.496 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 requisite approvals

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1469.98	1887.42
PBILDT	193.11	190.39
PAT	61.97	-33.16
Overall gearing (times)	1.32	1.45
Interest coverage (times)	3.54	1.40

*A: Audited

Status of non-cooperation with previous CRA:
NA

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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About CARE Ratings:
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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-31	1317.00	CARE AA- (Under Credit Watch with Negative Implications)
Commercial Paper	-	-	7-364 days	100.00	CARE A1+ (Under Credit Watch with Negative Implications)
Commercial Paper-Commercial Paper (Carved Out)	-	-	7-364 days	150.00	CARE A1+ (Under Credit Watch with Negative 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	1317.00	CARE AA- (Under Credit Watch with Negative Implications)	-	1)CARE AA- (Under Credit Watch) (19-Oct-16) 2) CARE AA- (Under Credit Watch with Negative Implications) (27-Mar-17)	1)CARE AA- (04-Dec-15)	1)CARE AA-(11-Nov-14)
2.	Commercial Paper	ST	100.00	CARE A1+ (Under Credit Watch with Negative Implications)	-	1)CARE A1+ (Under Credit Watch) (19-Oct-16) 2)CARE A1+ (16-May-16) 3) CARE A1+ (Under Credit Watch with Negative Implications) (27-Mar-17)	1)CARE A1+ (04-Dec-15)	1)CARE A1+ (11-Nov-14)
3.	Commercial Paper-Commercial Paper (Carved Out)	ST	150.00	CARE A1+ (Under Credit Watch with Negative Implications)	-	1)CARE A1+ (Under Credit watch with Developing Implications) (21-Feb-17) 2)CARE A1+ (Under Credit Watch with Negative Implications) (27-Mar-17)	1)CARE A1+ (04-Dec-15)	1)CARE A1+ (30-Jan-15)

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