Orient Cement Limited

March 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,353	**CARE AA- (Double A Minus; Under Credit Watch with Negative Implications)**	Rating under credit watch with negative implications
Total Facilities	**1,353 (Rupees One Thousand Three Hundred Fifty Three crore only)**		
Commercial Paper	100 (Rupees One Hundred crore only)	**CARE A1+ (A One Plus; Under Credit Watch with Negative Implications)**	Rating under credit watch with negative implications
Commercial Paper*	150 (Rupees One Hundred Fifty crore only)	**CARE A1+ (A One Plus; Under Credit Watch with Negative Implications)**	Rating under credit watch with negative implications

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 bank facilities and short-term instruments of Orient Cement Limited (OCL) is under 'credit watch with negative 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 ratings continue 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 ratings 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 drought, lower availability of fly ash in Q2FY17 and relatively lower volumes in Q3FY17 on account of demonetization of high value currency notes and cost side 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 old and new units, 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: 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 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 drought from two consecutive years (FY15 & FY16).

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

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 per tonne in FY15 (excluding new plant commissioned in September 2015). 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

Weak financial performance: 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.

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.

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 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 definitive agreement to be signed in next 2-3 months and complete the transaction in next 6-8 months.

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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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	1353.00	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 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.	Debentures-Non Convertible Debentures	LT
2.	Fund-based - LT-Term Loan	LT	1353.00	CARE AA- (Under Credit watch with Negative Implications)	1)CARE AA- (Under Credit Watch) (19-Oct-16)	2.	Fund-based - LT-Term Loan	LT
3.	Commercial Paper	ST	100.00	CARE A1+ (Under Credit watch	1)CARE A1+ (Under Credit Watch)	3.	Commercial Paper	ST

				with Negative Implications)	(19-Oct-16) 2)CARE A1+ (16-May-16)			
4.	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) (19-Oct-16) 3)CARE A1+ (16-May-16)	4.	Commercial Paper-Commercial Paper (Carved out)	ST

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