Orient Cement Limited

June 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1317.00	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Removed from credit watch; Rating Reaffirmed**
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)**	**Removed from credit watch; Rating Reaffirmed**
Commercial Paper (CP) issue	100 **(Rs. One hundred crore only)**	**CARE A1+ (A One Plus)**	**Removed from credit watch; Rating Reaffirmed**

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

Detailed Rationale
The ratings assigned to the bank facilities and instruments of Orient Cement Limited (OCL) have been removed from 'credit watch with negative implications' as company has announced termination of the agreement for acquisition of 74% stake in Bhilai Jaypee Cement Ltd from Jaiprakash Associates Ltd and Nigrie cement grinding unit from Jaiprakash Power Ventures Ltd.
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 performance in FY18 as compared to FY17. The ratings, however, are constrained by volatility in profitability margins on account of fluctuating realizations, volatility in the input costs, moderate gearing ratio and cyclicality of the cement industry.
The improvement in capacity utilization, realizations and the profitability of OCL and any debt funded capex and its impact on the capital structure shall be the 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 volume growth: The production volume of the company has increased 3.79% from 5.55 mtpa in FY17 to 5.75 mtpa in FY18. The overall capacity utilization for the FY18 stood at 72% as compared to 69% in FY17.

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.

Improvement in financial performance in FY18, although volatility in profitability margins: The company reported a growth of 18.80% in total operating income from Rs.1887.72 crore in FY17 to Rs.2242.57 crore in FY18 (As per brief

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

audited results). Also the PAT and GCA for FY18 stood at Rs.44.22 crore (net loss of Rs.32.09 crore in FY17) and Rs.196.19 crore (Rs.55.06 crore in FY17) respectively.
The company's financial performance improved in FY18 on account of volume growth and better sales realization. The company's sales volume grew by 3.79% while sales realization improved from Rs.3,865 per tonne in FY18 as compared to Rs.3,369 per tonne in FY17. In FY18, the company's PBLIDT margin improved and stood at 14.51% (10.07% in FY17) while PAT margin stood at 1.97% (-1.76% in FY17). However, sustainable improvement in performance would be crucial.

Key Rating Weaknesses

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 (~20% of total fuel requirement in FY18, ~26% in FY17) which it sources from the domestic producers. The company depends on the open market purchases for meeting its raw material requirement, thus 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.

Moderate gearing ratio: Overall gearing ratio, though improved marginally from 1.45x as on March 31, 2017 to 1.38x as on March 31, 2018, remains moderate. Interest coverage ratio stood at 2.52x for FY18 as compared to 1.40x for FY17. Nevertheless, the company's repayment obligations are elongated and liquidity position is comfortable with average working capital utilization of about 34% during last 12 months.

Analytical approach:
Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
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'.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (Brief Audited)
Total operating income	1887.42	2242.57
PBILDT	190.39	325.40
PAT	-32.09	44.22
Overall gearing (times)	1.45	1.38
Interest coverage (times)	1.40	2.52

*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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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-; Stable
Commercial Paper	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1317.00	CARE AA-; Stable	-	1)CARE AA- (Under Credit watch with Negative Implications) (16-Mar-18)	1)CARE AA- (Under Credit watch with Negative Implications) (27-Mar-17) 2)CARE AA- (Under Credit Watch) (19-Oct-16)	1)CARE AA- (04-Dec-15)
2.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (Under Credit watch with Negative Implications) (16-Mar-18)	1)CARE A1+ (Under Credit watch with Negative Implications) (27-Mar-17) 2)CARE A1+ (Under Credit Watch) (19-Oct-16) 3)CARE A1+ (16-May-16)	1)CARE A1+ (04-Dec-15)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (Under Credit watch with Negative Implications) (16-Mar-18)	1)CARE A1+ (Under Credit watch with Negative Implications) (27-Mar-17) 2)CARE A1+ (Under Credit watch with Developing Implications) (21-Feb-17) 3)CARE A1+ (Under Credit Watch) (19-Oct-16) 4)CARE A1+ (16-May-16)	1)CARE A1+ (04-Dec-15)

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