Orient Cement Limited

August 25, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	1175.24 (reduced from 1,237.40)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term Bank Facilities (Cash Credit)	100.00	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Assigned**
Total	**1275.24 (Rs. One Thousand Two Hundred Seventy five Crore and twenty four Lakh only)**		
Commercial Paper (CP) issue (Carved out)*	150.00 **(Rs. One hundred and fifty crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**
Commercial Paper (CP) issue	100.00 **(Rs. One hundred crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Orient Cement Limited (OCL) continue to draw support from experienced promoters and management team, established group viz. CK. Birla group with long presence in the cement industry, operational efficiency due to backward integration and satisfactory capacity utilization. The ratings also derive comfort from the satisfactory financial performance of the company during the FY20, its comfortable financial profile and adequate liquidity position. The ratings, however, are constrained by the cyclicality associated with the cement industry, exposure to volatility in input costs and the dependence of cement demand on construction activity and infrastructure spend in the economy, and the uncertainty regarding the timing of the on-going Covid-19 pandemic clearing out, which impacted the Q1FY21 operational performance of the company.

Rating sensitivities:

Positive sensitivities:

- Sustained growth in top-line by around 15-20% p.a.
- Increase in PBILDT margins to over 20% on sustained basis
- Improvement in leverage levels, going forward, with overall gearing sustaining below unity.

Negative sensitivities:

- Decline in PBILDT margins below 13%-14% due to volatility in input costs.
- Substantial decline in sales volume resulting in lower capacity utilisation of plants and decline in the total operating income on a sustained basis.
- Any large scale debt-financed capex, leading to deterioration in capital structure or increase in overall gearing levels.

Detailed description of the key rating drivers

Key Rating Strengths

Established group with experienced promoters and management team: OCL is part of the C.K. Birla Group, which has 37.37% stake in the company. This group is a leading industrial group of the country and has major presence in diverse range of products like 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 experience. Also, the company's Managing Director, Mr. Deepak Khetrapal has extensive industry experience.

Captive power generation facilities and proximity to owned limestone quarries: OCL meets majority of its power requirements through its coal-based captive power capacity of 95 MW. The company sources limestone for the cement division 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

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

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.

Improvement in financial performance in FY20; however, moderation in Q1FY20 performances on account of Covid-19: While the company's total operating income (TOI) decreased by about 3.78% from Rs.2,532.92 crore in FY19 to Rs.2437.21 crore during the FY20, its PBILDT has improved by 23.39% from Rs.322.79 crore in FY19 to Rs.398.28 crore in FY20. PAT and GCA also increased by 82.10% and 34.10% on y-o-y basis during the FY20 at Rs.86.59 crore (FY19: Rs.47.55 crore) and Rs.278.27 crore (FY19: Rs.207.51 crore) respectively. The PBILDT and PAT margins improved in FY20 and stood at 16.34% (FY19: 12.74%) and 3.55% (FY19: 1.88%) respectively. Despite the lower sales volume during FY20, the performance of the company improved on the back of better sales realizations and lower power & fuel costs. The company's average sales realization price improved from Rs.3,927 per tonne in FY19 to Rs.4164 per tonne in FY20. The overall gearing improved and stood at 1.18x as on March 31, 2020 (1.30x as on March 31, 2019), while interest coverage ratio improved to 3.26x as on March 31, 2020 from 2.72x as on March 31, 2019.
The company has reported a decline of 40% in TOI on Y-o-Y basis in Q1FY21 owing to Covid-19 pandemic, which resulted in nationwide lockdown leading to shutdown of all the plants from March 23 2020 to April 21, 2020. The PAT and GCA also declined by 54% and 37% respectively in Q1FY21 as compared to Q1FY20. Despite moderation in TOI and profitability in quantitative terms, the PBILDT margin has improved to 25% in Q1FY21 as compared to PBILDT margin of 22% in Q1FY20 due to improved average sales realization price at Rs.5000/- per tonne, besides better cost efficiency.

Key Rating Weaknesses
Moderate capacity utilisation: The Company has large exposure to markets like Maharashtra, Telangana and Karnataka. The capacity utilization for FY20 was at 73% as against 81% during the FY19. The reason for decline in production volumes was lower demand in addressable market coupled with outbreak of Covid-19 pandemic, which affected the operations of the company during last 10 days of March 2020. The utilization levels continued to be lower at 40% during Q1FY21 (77% in Q1FY20) owing to nation-wide lockdown, wherein, the plants were shut down till third week of April 2020. Covid-19 pandemic has posed fresh challenges to cement sector. Fall in demand for cement from housing and construction activities coupled with units operating at sub-par capacities along with staggered shifts has led to the fall in production.
Moderate growth in cement demand over the medium term in southern & western market, may result in depressed realisations and slow volume growth constraining the ability to pass on rise in input costs to customers and adversely affecting the EBITDA per tonne. Given the current market scenario, the company may increase its penetration in the farther markets which may lead to increase the freight cost but the increased cost are expected to be off-set by the better realization in these markets.
While profitability may be restricted in a weak operating environment, the comfortable capital structure and healthy liquidity should support debt protection metrics. The demand situation post monsoon will be key monitorable, especially in Southern and Western markets, where the company is operating.

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 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. However, realizations were better in Q1FY21 as compared to Q1FY20 across the market as the demand is currently being driven by rural India resulting in increased trade volumes.

Liquidity: Adequate
The company has free cash and cash equivalents of around Rs.145 crore as on June 30, 2020. The company also has sanctioned working capital limits of Rs.300 crore, wherein, the average limit utilization in the last 12 months period ended June 2020 stood comfortable at 11.34%. The company has principal repayments of around Rs.80 crore in FY21 vis-à-vis gross cash accruals of Rs.278 crore in FY20.
The company has not availed moratorium for its debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. Furthermore, the company has prepaid the term loan instalments for the next three quarters of FY21 (around Rs.61 crore) in August 2020.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Liquidity analysis for Non-Financial Sector Entity
Rating Methodology – Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-Financial Sector
Rating Methodology - Cement Industry
CARE's Policy on curing period

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 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., Orient Cement Limited 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'.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,532.92	2,437.21
PBILDT	322.79	398.28
PAT	47.55	86.59
Overall gearing (times)	1.30	1.18
Interest coverage (times)	2.72	3.26

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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	1175.24	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE AA-; Stable
Commercial Paper	-	-	7-365 days	100.00	CARE A1+
Commercial Paper (Carved out)	-	-	7-365 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1175.24	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Negative (31-Dec-18) 2)CARE AA-; Stable (07-Jun-18)	1)CARE AA- (Under Credit watch with Negative Implications) (16-Mar-18)
2.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (07-Jun-18)	1)CARE A1+ (Under Credit watch with Negative Implications) (16-Mar-18)
3.	Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (07-Jun-18)	1)CARE A1+ (Under Credit watch with Negative Implications) (16-Mar-18)
4.	Fund-based - LT-Cash Credit	LT	100.00	CARE AA-; Stable	-	-	-	-

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

Name of the Instrument	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/firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple
2.	Commercial Paper (Carved out)	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT-Cash Credit	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.*

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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.

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