Orient Cement Limited

October 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	1,237.40 (reduced from 1,278.19)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed; Outlook revised from 'Negative' to 'Stable'**
Total	**1,237.40 (Rs. One Thousand Two Hundred Thirty Seven crore and Forty lakh only)**		
Commercial Paper (CP) issue*	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 improvement in financial performance of the company in FY19 and Q1FY20. The ratings, however, are constrained by volatility in the input costs and cyclicality of the cement industry.
Going forward, the achievement of envisaged sales realization and volume growth, ability of the company to sustain the improvement in its profitability in light of volatile input costs, and any debt funded capex and its impact on the capital structure shall be the key rating sensitivities.

Outlook: Stable

The outlook of the company has been revised to 'Stable' on account of improvement in operational and financial performance in FY19 and Q1FY20 on account of increase in realizations in the regions OCL operates in, healthy volume growth and increase in PBILDT per tonne levels for the company.

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 37.37% stake in the company. This group 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 increased about 12% on y-o-y basis from 5.75 mtpa in FY18 to 6.45 mtpa in FY19. The overall capacity utilization levels stood at 81% in FY19 (72% in FY18) and 77% in Q1FY20 (82% in Q1FY19).

Backward integration with locational advantage: The company 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 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.

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

Improvement in financial performance in FY19 and Q1FY20: The company has reported growth of about 13% in total operating income (TOI) from about Rs.2,242 crore in FY18 to Rs.2,533 crore in FY19. PAT increased 7.53% Y-o-Y from Rs.44.22 crore in FY18 to Rs.47.55 crore in FY19 and GCA increased 5.76% Y-o-Y from Rs.196.20 crore in FY18 to Rs.207.51 crore in FY19. The improvement in financial performance is on account of healthy volume growth and increase in sales realization from Rs.3,858 per ton in FY18 to Rs.3,925 per ton in FY19. The overall gearing improved and stood at 1.30x as on March 31, 2019 (1.37x as on March 31, 2018), while interest coverage ratio improved from 2.51x as on March 31, 2018 to 2.72x as on March 31, 2019.
Further, the company's financial performance in Q1FY20 has seen significant improvement as compared to Q1FY19. The TOI increased by 7.48% to Rs.691.36 crore in Q1FY20 as compared to Rs.643.25 crore in Q1FY19. PBILDT increased by 72.51% and stood at Rs.153.14 crore in Q1FY20 as compared to Rs.88.77 crore in Q1FY19. PAT increased from Rs.16.02 crore in Q1FY19 to Rs.55.90 crore in Q1FY20 and GCA increased from Rs.59.37 crore in Q1FY19 to Rs.121.88 crore in Q1FY20. The improvement in performance in Q1FY20 is mainly on account of increase in sales realization from Rs.3,992 per ton in Q1FY19 to Rs.4,552 per ton in Q1FY20. PBILDT and PAT margins also improved in Q1FY20 and stood at 22.15% (13.80% in Q1FY19) and 8.09% (2.49% in Q1FY19) respectively. PBILDT per ton increased from Rs.554 per ton in Q1FY19 to Rs.1,014 per ton in Q1FY20.

Outlook on cement industry: Given the inherent cyclical nature of the cement industry, the company remains exposed to risks associated with the same. However, higher outlay and focus on infrastructure, housing and rural development are likely to boost the cement demand in the long-term, which in turn will benefit the companies in the sector.

Key Rating Weaknesses

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 uses pet coke (~7% of total fuel requirement in Q1FY20, ~6% in FY19 and ~19% in FY18) 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 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.

Liquidity indicator: Adequate
The company has cash and cash equivalents of Rs.28.77 crore as on March 31, 2019. The company also has sanctioned working capital limits of Rs.300 crore which has average utilization of around 30% in the last 12 months period ended August 2019. The company has principal repayments of about Rs.59 crore in FY20.

Analytical approach:
Standalone

Applicable Criteria:
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – 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)	FY18 (A)	FY19 (A)
Total operating income	2,241.77	2,532.92
PBILDT	324.07	322.79
PAT	44.22	47.55
Overall gearing (times)	1.37	1.30
Interest coverage (times)	2.51	2.72

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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-2031	1237.40	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	1237.40	CARE AA-; Stable	-	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)	1)CARE AA- (Under Credit watch with Negative Implications) (27-Mar-17) 2)CARE AA- (Under Credit Watch) (19-Oct-16)
2.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (07-Jun-18)	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)

3.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (07-Jun-18)	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)

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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