Orient Cement Limited

December 31, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	1278.19 (reduced from 1317.00)	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	**Rating Reaffirmed Outlook revised from Stable to Negative**
Total	**1278.19 (Rs. One Thousand Two Hundred Seventy Eight Crore and Nineteen Lakh only)**		
Commercial Paper (CP) issue*	150 **(Rs. One hundred and fifty crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**
Commercial Paper (CP) issue	100 **(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

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, 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.

Going forward, improvement in realizations and the profitability of OCL and any debt funded capex and its impact on the capital structure shall be the key rating sensitivities.

Outlook: Negative

The revision in the outlook reflects weak financial performance in H1FY19 at the back of increase in input costs and subdued realizations in the regions OCL operates in and low EBIDTA per tonne for the company. The continuation of the subdued situation can impact the overall financial risk profile of the company in the medium term. However, the outlook may be revised to ‘Stable’ if the company exhibits improvement in operational and financial performance.

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 in H1FY19: The production volume of the company has increased 13.50% from 2.74 mtpa in H1FY18 to 3.11 mtpa in H1FY19. The overall capacity utilization for the FY18 stood at 72% (69% in FY17) and 78% in H1FY19 (69% in H1FY18).

Backward integration with locational advantage: The company meets majority of its power requirements through its coal based captive power capacity of 95MW. 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.

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

Key Rating Weaknesses

Moderate financial risk profile: The financial performance in H1FY19 is weak as compared to H1FY18. The total operating income increased by 9.09% from Rs.1105.92 crore in H1FY18 to Rs.1206.47 crore in H1FY19 on account of increase in volumes. However, the PBLIDT and PAT declined by 38.47% and 101.65% in H1FY19 as compared to H1FY18. The PBLIDT and PAT for H1FY19 stood at Rs.126.96 crore (Rs.206.33 crore in H1FY18) and Rs.(-)0.73 crore (Rs.49.07 crore in H1FY18) respectively. The weak financial performance in H1FY19 on YoY basis is due to higher freight cost and power & fuel cost. The company's sales realization in H1FY19 stood at Rs.3824 (Rs.4026 in H1FY18). The overall gearing for the company remains moderate at 1.45x as on September 30, 2018 (1.38x as on March 31, 2018). Going forward, if the performance remains weak, it may also have an adverse impact on the company's gearing levels.
However, the company's financial performance in FY18 improved due to better demand and sales realization. The company's total operating income increased 18.81% to Rs.2242.57 crore in FY18 (Rs.1887.42 crore in FY17). The company's PBLIDT stood at Rs.324.07 crore in FY18 (Rs.190.13 crore in FY17). The company also reported net profit of Rs.44.22 crore in FY18 (net loss of Rs.32.10 crore in FY17) and GCA of Rs.196.20 crore in FY18 (Rs.55.06 crore in FY17).

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 (~6% of total fuel requirement in H1FY19, ~20% in FY18 and ~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.

Liquidity analysis:
The liquidity of the company is moderate. The company has cash and cash equivalents of Rs.2.50 crore as on September 30, 2018 (Rs.33.13 crore as on March 31, 2018). The company also has sanctioned working capital limits of Rs.300 crore which has average utilization of around 40%.

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 (A)
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	1278.19	CARE AA-; Negative
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	1278.19	CARE AA-; Negative	1)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)	1)CARE AA- (04-Dec-15)
2.	Commercial Paper	ST	100.00	CARE A1+	1)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)	1)CARE A1+ (04-Dec-15)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	1)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)	1)CARE A1+ (04-Dec-15)

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