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ICRA reaffirms LAA- rating and the A1 + rating for the bank facilities/CP/NCD of OCL India Limited;

ICRA reaffirms its LAA- (pronounced L double A minus) rating assigned to the Rs. 126 crore[1], NCD programme and its A1+ (pronounced A one plus) rating assigned to the Rs. 50 crore, short-term, debt (STD)/ commercial paper (CP) programme of OCL India Limited (OCL)[†]. ICRA also reaffirms its LAA- rating assigned to the long-term bank limits (fund-based and non-fund based) for an amount of Rs. 1058.57 crore and A1+ rating assigned to the Rs. 190 crore[2], short-term bank limits (fund-based and non-fund based) of OCL India Limited. The outlook for the long term rating is stable.

The rating reaffirmation takes into account the established position of OCL in the cement business in Eastern India and the improved operating profile of OCL with the recent capacity addition and the steady operating efficiency. These factors, coupled with healthy price trends in the Eastern markets have resulted in improved profits in the cement business in FY 2010. Healthy accruals have also resulted in improvement in capital structure and coverage indicators. Further, the commissioning of the 54 MW captive power plant by December, 2010 is likely to further improve the operating profile and cost structures of the company. The ratings are however constrained by the fact that OCL continues to remain vulnerable to geographical concentration risks as its operations are confined to a single region. Further, with large capacity additions currently underway the supply-demand position, the capacity utilization and realizations are going to come under pressure, although being strategically located in relatively limestone deficit East, the impact on East India based players (including OCL) are likely to be less severe as compared to cement mills in some other regions. The A1+ rating of ICRA also factors in the healthy liquidity position of the company, as measured by its significant, unutilised Working Capital (WC) limits and substantial cash and equivalents (Rs. 354 crores as on March 31,2010). With limited capex and expectations of strong accruals the net gearing is expected to remain well below 1 times in the medium term.

Company Profile

OCL (formerly known as Orissa Cement Limited) was promoted by the Dalmia group. The company has two divisions, namely, cement and refractory. The cement division is located at Rajgangpur and Kapilas in Orissa while the refractory division is located at Rajgangpur in Orissa. OCL has been engaged in the business of manufacturing cement since 1950 and later diversified into the manufacture of refractories in 1954. The company ventured into the sponge iron business in 2002. In FY 08, the company demerged its sponge iron division (along with captive power plant) into a separate company. During 2009-10, OCL reported an Operating Income (OI) of Rs. 1391 crore and net profit of Rs. 164 crore. The cement division accounted for 81% of its OI and 92% of its Operating Profit before Depreciation Interest and Taxes.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[1] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[2] Please note that the utilisation of non-fund based facilities (long-term as well as short-term) should not exceed Rs. 140 crore.