

January 23, 2017

OCL India Limited

Instrument*	Rated Amount (in crore)	Rating Action
Non-Fund Based Limits	351.00	Reaffirmed at [ICRA]AA(Stable)/[ICRA]A1+
Fund Based Limits	400.00 (revised from Rs 200 crore)	Reaffirmed at [ICRA]AA(Stable)/[ICRA]A1+
Long term loans	458.79 (revised from Rs 655.68 crore)	Reaffirmed at [ICRA]AA(Stable)
NCD	624.00 (revised from Rs 648 crore)	Reaffirmed at [ICRA]AA(Stable)
Total		

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term and short term rating at [ICRA]AA (pronounced ICRA Double A) and [ICRA]A1+ (pronounced ICRA A one plus) ¹ assigned earlier to the Rs. 1206.68 crore Line of Credit of OCL India Limited. ICRA has also assigned a long-term rating of [ICRA]AA (pronounced ICRA Double A) and short term rating of [ICRA]A1+ (pronounced ICRA A one Plus) to the enhanced limit of Rs. 3.11 crore. ICRA has reaffirmed the long term rating of [ICRA]AA (pronounced ICRA Double A) to the Rs 624 crore NCD programme of OCL India Limited. The outlook on the long term rating is Stable.

Rationale

The rating action takes into account the cash accretive and operationally efficient cement operations of OCL as well as the Dalmia group and also its strong market position in its key markets of Southern, Eastern and North Eastern India. The rating action factors in the favourable supply demand outlook in the Eastern region; also greater marketing synergy with a group company namely Dalmia Cement East Limited (which operates a cement unit in Bokaro, Jharkhand); and various cost reduction measures being undertaken by OCL including increased slag percentage in Portland Slag cement (PSC), reduction in slag procurement prices driven by enhanced availability of slag and introduction of petcoke usage in cement kilns. The aforementioned factors have led to the company reporting healthy growth in offtake and OPBDITA/MT in its cement division during H1FY17 and consequently strong profitability indicators in H1FY17. The liquidity position of the company is also strong as reflected by the huge liquid surplus (~Rs. 1400 crore as on March 31, 2016 and ~Rs 1580 crore as on Sep 30, 2016) and significant unutilized working capital limits; and so are its capital structure (net gearing stood at -0.14 as on March 31, 2016); and coverage indicators with Net Cash Accruals/Total debt at 29% and Debt/OPBDITA at 2.29 times in FY16). Demonetization of higher currency notes can potentially impact demand in the real estate sector which can spiral down to cement as well as construction sectors and hence ICRA will continue to monitor the impact of the same in the near to medium term.

The proposed restructuring, reverse merger of Dalmia Bharat Limited (DBL, holding company of DCBL) into OCL India Limited (OCL, 74.6% stake held by DBCL) and subsequent transfer of business undertaking to DCBL will result in consolidation of entire operations of Dalmia Group (with the exception of Calcom Cement India Ltd, 76% stake held by DCBL) under one single company; DCBL. This will result in simplification of structure, removal of redundancies and enhanced operational and financial synergies. The group had earlier announced merger of OCL and Dalmia Cement East Limited (DCEL) into Odisha Cement Limited (wholly owned subsidiary of OCL), merger of Adhunik Cement Ltd (ACL, wholly owned subsidiary of DCBL operating in North East region) with DCBL and also transfer of power assets and liabilities of DCB Power Ventures (74%

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

held by Dalmia Power Ltd² and 26% held by DCBL) to DCBL. These schemes once implemented will result in a single company with pan India presence for cement capacities and result in operational and tax synergies for DCBL.

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 the company's margins are exposed to the cyclical in the cement industry and also price trends for raw materials and other inputs.

Going forward, the company's ability to maintain its capital structure while pursuing growth opportunities will be the key rating driver.

Key rating drivers

Credit Strengths

- OCL is one of the largest cement manufacturers' in the eastern region with a strong market positioning, majorly in Orissa (53% of total sales in FY16). Commencement of the 1.35 million MT grinding unit in West Bengal has further consolidated OCL's position in eastern region
- Integrated unit with assured raw material linkages coupled with captive power plants to support profitability. Full benefits from captive power unit are yet to derived
- Operational synergies arising out of being part of the Dalmia group; group intends to split the eastern markets between Dalmia Cement East Limited and OCL to save on logistics costs.
- Liquid surplus of ~Rs. 1400 crore as on Mar 31, 2016. Favorable financial profile as reflected by relatively low net gearing (adjusted for liquid surplus) of (0.14) times as on March 2016 and strong debt coverage indicators with NCA/ND at 29% and interest coverage at 3.95 times in FY16
- Improved financials during H1FY17, mainly driven by various cost reduction initiatives undertaken by the company, which have resulted in a significant improvement in profitability from the cement division.

Credit Weakness

- Geographical concentration related risks in the core cement business
- Vulnerability to cyclical trends in all the business segments i.e. cement & refractory
- Cost pressures stemming from rising raw material prices, power and freight costs, however benefits of the captive power units, operational synergies within the group and scaling up of the operations at WB unit are likely to support profitability going forward.
- Pressure on refractory margins owing to rising raw material costs, intense competition and limited pricing flexibility

Description of key rating drivers highlighted above:

The company has a strong market position in its key markets of Southern, Eastern and North Eastern India which result into cash accretive and operationally efficient cement operations of OCL as well as the Dalmia group. Various cost reduction measures being undertaken by OCL including increased slag percentage in Portland Slag cement (PSC), reduction in slag procurement prices driven by enhanced availability of slag and introduction of petcoke usage in cement kilns have led to the company reporting healthy growth in offtake and OPBDITA/MT in its cement division during H1FY17 and consequently strong profitability indicators in H1FY17. The liquidity position of the company is also strong as reflected by the huge liquid surplus (~Rs. 1400 crore as on March 31, 2016 and ~Rs 1580 crore as on Sep 30, 2016) and significant unutilized working capital limits; and so are its capital structure (net gearing stood at -0.14 as on March 31, 2016); and coverage indicators with Net Cash Accruals/Total debt at 29% and Debt/OPBDITA at 2.29 times in FY16). Favourable supply demand outlook in the Eastern region and greater marketing synergy with a group company namely Dalmia Cement East Limited (which operates a cement unit in Bokaro, Jharkhand) is expected to augur well for the volumes of OCL going forward.

² Dalmia Power Limited is 100% subsidiary of DBL

During H1 FY17, OCL has reported a moderate growth in the OI by 11% backed by increase in the net sales from both the cement division (8%) and refractory division (50%). Operating profitability of cement division witnessed significant growth from 16.3% PBIT margin in H1FY16 to 26.8% in H1FY17, however the overall operating profitability witnessed a slightly lower increase to 23% in H1 FY17 from 13.9% in H1 FY16, due to operating losses in the refractory division. The overall net profitability is higher at 14.1% in H1 FY17 when compared to 7.2% in H1 FY16, in line with the growth in operating profitability, despite significant increase in financial and interest charges during the period.

Analytical approach: Not Applicable

Links to applicable Criteria

ICRA Rating Methodology- Indian Cement companies

<http://www.icra.in/Files/Articles/ICRA%20Rating%20Methodology-%20Cement.pdf>

About the Company:

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 (Orissa), Kapilas (Orissa) and Medinipur (West Bengal) 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.

During FY16, OCL reported an Operating Income (OI) of Rs. 2664.70 crore and net profit of Rs. 236.28 crore as against OI of 2214.92 crore and net profit of Rs. 113.69 crore in FY15. During H1 FY17, OCL reported OI of Rs. 1355 crore and net profit of Rs. 191.55 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	December 2015	October 2014	October 2013
1	Fund based limits	Long Term/Short term	400.0	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
2	NCD	Long Term	624.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
3	Term Loans	Long Term	458.79	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
4	Non-fund based limits	Long Term/Short term	351.0	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
5	Commercial Paper	Short Term	300.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

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

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
10.80% NCDs	06-02-2006	10.8%	06-02-2017	24	[ICRA]AA (Stable)
9.90% NCDs					
2020 STRPP -1	30-03-2015	9.90%	30-03-2020	200	[ICRA]AA (Stable)
2021 STRPP -2	30-03-2015	9.90%	30-03-2021	200	[ICRA]AA (Stable)
2022 STRPP -3	30-03-2015	9.90%	30-03-2022	200	[ICRA]AA (Stable)
Cash Credit		-	-	400	[ICRA]AA (Stable)/[ICRA]A1+
Non fund based				351	[ICRA]AA (Stable)/[ICRA]A1+
Term loan- SBI	NA		31-12-2028	153.73	[ICRA]AA (Stable)
Term loan-Exim Bank	NA		30-09-31	115.00	[ICRA]AA (Stable)
Term loan-IFC	NA		31-12-2022	190.06	[ICRA]AA (Stable)

Source: OCL India Limited

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