May 28, 2021

UltraTech Nathdwara Cement Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Term Loan	2,700.00	2,652.75	[ICRA]AAA(Stable); Reaffirmed
Long-term/Short-term, Fund based- Working Capital Facilities (CC/WCDL)	25.00	25.00	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Long-term/Short-term, Non-fund based-Working Capital Facilities (LC/BG)	125.00	125.00	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Long-term/Short-term, Proposed working facilities	150.00	197.25	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Total	**3,000.00**	**3,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on UltraTech Cement Limited (UCL) and its subsidiaries, step-down subsidiaries, joint ventures and associate companies, including UltraTech Nathdwara Cement Limited (UNCL), while assigning the credit ratings, given the common management and the significant operational and financial linkages between them. UNCL is a wholly-owned subsidiary of UCL and operates as its captive unit, with UCL being its sole customer.

The rating reaffirmation factors in UCL's market leadership position in the Indian cement industry, with a capacity market share of around 22% in FY2021. It has an installed capacity of 116.8 million tonnes per annum (MTPA), including overseas capacity of 5.4 MTPA. UCL has strengthened its position by adopting an expansion strategy through the inorganic route, whereby, it added considerable capacities (~46.8 MTPA) over FY2018-FY2021 and successfully integrated the acquired capacities by building in cost efficiencies, ramping up the utilisation levels and realising synergies from brand premium. Further, similar turnaround of the acquired Century Textiles and Industries Limited's (CTIL) cement assets is likely to support UCL's performance going forward. While the acquisition of Jaiprakash Associates Limited and Jaypee Cement Corporation Limited (collectively referred as Jaypee) and Binani Cement Limited (BCL) strengthened the company's presence in the northern region, the acquisition of CTIL's cement assets increased its foothold in the eastern, western and central markets, besides providing access to limestone reserves. Furthermore, the planned capacity addition of 19.5 MTPA, primarily in the eastern and central regions, is likely to consolidate UCL's presence in these regions. UCL's pan-India presence reduces dependence on a particular region and insulates the performance from downturn in any particular region. UCL enjoys strong operating efficiencies supported by healthy consumption norms, captive power generation and efficient logistics driven by pan-India presence. Notwithstanding the subdued performance in Q1FY2021 due to Covid-19 induced lockdown, UCL witnessed QoQ ramp-up in the subsequent 9-month period and reported an increase of 5% YoY in sales volumes in FY2021. In addition, an increase in the net sales realisation by 2.7%, benign input costs and ramp-up of acquired assets resulted an increase in OPBIDTA/MT by 19% YoY to Rs. 1,338/MT in FY2021. This along with the decline in the net debt (supported by prepayments despite some debt addition and higher cash generation) by 60% YoY to Rs. 6,717 crore (excluding lease liabilities) as on March 2021 has resulted in an improvement in the debt coverage metrics—interest cover of 7.8x and Net Debt/OPBIDTA of 0.6x in FY2021 compared to 4.7x and 1.8x respectively in FY2020. The healthy cash generation in FY2021 resulted in a YoY increase in free cash and liquid investment balance by ~127% to Rs. 13,770 crore reported as of March 2021. The rating derives comfort from UCL's strong parentage (a part of the Aditya Birla Group), which lends considerable financial flexibility.

ICRA foresees minor business disruptions in the current quarter caused by the adverse impact of the second wave of Covid-19 pandemic, though not to the extent of Q1FY2021, owing to lesser stringent lockdown imposed so far. Nevertheless, the demand indicators from the infrastructure segment are expected to remain intact in the near term, though the rural segment may take some time to ramp-up. The government's thrust on the affordable housing and infrastructure segments is a positive from long-term demand perspective.

UCL's operations, however, remain exposed to the demand and pricing dynamics in the cement industry, which are influenced by cyclical economic trends and capacity additions by the players during such periods. When the incremental capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Nevertheless, the pan-India presence protects UCL's pricing or operational risks to a certain extent at the consolidated entity level. Despite the power, fuel and logistics mix adopted by UCL, its profitability remains susceptible to fluctuations in the input prices.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that UCL will continue to benefit from its strong business profile, characterised by its established position in the Indian cement industry and its strong financial flexibility by virtue of being a part of the Aditya Birla Group.

Key rating drivers and their description

Credit strengths

Market leadership position in Indian cement industry – UCL is the largest cement player in India with a domestic capacity of 111.1 MTPA (as of March 2021). With its capacities spread across the country, UCL's capacity market share is 22% in FY2021. While the BCL acquisition (8.55 MTPA; of which 6.35 MTPA is in India and the balance overseas) strengthened the company's presence in the northern region, the acquisition of CTIL's cement assets (14.6 MTPA) increased its foothold in the eastern, western and central markets besides providing access to limestone reserves. Furthermore, the planned capacity addition in the eastern and the central regions is likely to consolidate UCL's presence in these regions. UCL enjoys strong operating efficiency supported by healthy consumption norms, captive power generation and efficient logistics, driven by the pan-India presence.

Well diversified geographical presence insulates UCL from downturn in any one region – UCL's pan-India presence reduces dependence on a particular region and insulates the performance from downturn in any particular region.

Strong growth prospects – ICRA foresees minor business disruptions in the current quarter caused by the adverse impact of the second wave of Covid-19 pandemic, though not to the extent of Q1FY2021, owing to imposition of lesser stringent lockdown. Nevertheless, the demand indicators from the rural and infrastructure segments are expected to remain intact in the near term. The Government's thrust on the affordable housing and infrastructure segments is a positive from long-term demand perspective.

Strong financial profile supported by significant improvement in performance of acquired plants – Notwithstanding the adverse impact on sales volumes in Q1FY2021 owing to the Covid-19 disruption, UCL witnessed QoQ ramp-up and reported an increase of 5% YoY in sales volumes in FY2021. Further, an increase in the net sales realisation by 2.7%, benign input costs and ramp-up of acquired assets increased the OPBIDTA/MT by 19% to Rs. 1,338/t in FY2021. This along with the decline in the net debt (supported by scheduled repayments, prepayments and higher cash generation) by 60% YoY to Rs. 6,717 crore as on March 2021 has resulted in an improvement in the debt coverage metrics—interest cover of ~7.8x and Net Debt/OPBIDTA of 0.6x in FY2021 compared to 4.7x and 1.8x respectively in FY2020.

UCL has been able to turnaround the acquisitions undertaken in the recent past, in terms of achieving healthy utilisation levels and improving profitability through cost efficiencies and realisation of brand premium; similar turnaround of the acquired CTIL's cement assets is likely to support UCL's performance going forward.

Besides the adequate cash and liquid investments of over Rs. 13,770 crore as on March 31, 2021, UCL enjoys good access to capital markets and bank finance, and a considerable financial flexibility by virtue of being a part of the Aditya Birla Group.

Credit challenges

Vulnerability of revenues to cyclicality in economy -– UCL remains exposed to demand and pricing dynamics in the cement industry, which is influenced by cyclical economic trends and capacity additions by the players during such periods. When the incremental capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Nevertheless, the pan-India presence protects UCL's pricing or operational risks to a certain extent at the consolidated entity level.

Susceptibility of profitability to fluctuations in input prices - Besides the power, fuel and logistics mix adopted by UCL, its profitability remains susceptible to fluctuations in the input prices.

Liquidity position: Superior

UCL's liquidity profile is superior, backed by strong balance of cash and liquid investments (~Rs. 13,770 as on March 31, 2021 and unutilised fund-based limits (~Rs. 1,295 crore as of March 2021). The long-term debt repayment obligations to the tune of Rs. 2,704 crore in FY2022 are likely to be met from cash flow from operations. The company has ongoing expansion plans (11.4 MTPA of clinker and 19.5 MTPA cement capacities) that are expected to be completed by FY2024 with a total capex outlay of Rs. 6,527 crore. This is expected to be largely funded by internal accruals (Rs. 700 crore is earmarked from capex from the recent Rs. 2,924 crore of external commercial borrowings). Besides maintenance and upkeep capex, the company's focus on WHRS will also entail a capex of Rs. 1,800 crore to be incurred till FY2024, which is also likely to be funded largely by internal accruals.

Rating sensitivities

Positive factors – NA

Negative factors – Significant decline in revenues and margins or a significant debt-funded capex or acquisition resulting in weakening of debt coverage metrics on a sustained basis, will be a negative. Furthermore, the inability to maintain net debt/OPBIDTA at less than 2x times on a sustained basis will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Cement Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating of UNCL, ICRA has taken a consolidated view of UCL and its subsidiaries, step-down subsidiaries, joint ventures and associate companies, including UNCL, and thus, has considered the consolidated financials of UCL. List of entities forming part of UCL's consolidated financials are enlisted in Annexure-2.

About the company – UNCL

The erstwhile BCL, a flagship subsidiary of the Braj Binani Group, was admitted under the Insolvency and Bankruptcy Code for the corporate resolution process by the National Company Law Tribunal in July 2017. It became UCL's wholly-owned subsidiary with effect from November 20, 2018 and was renamed as UltraTech Nathdwara Cement Limited with effect from December 13, 2018. With this acquisition, UCL added a total capacity of 8.55 MTPA (6.25 in Rajasthan, 0.3 in China and 2.0 in the UAE), 70 MW of thermal power plant capacity and access to BCL's limestone reserves (~450 MT). At present, UNCL operates under a contract manufacturing arrangement, with UCL as its sole customer.

About the parent company – UCL

UCL, an Aditya Birla Group company, along with its subsidiaries, manufactures Ordinary Portland, Portland Pozzolana and white cement as well as ready-mix concrete. UCL, an Aditya Birla Group Company, is the largest cement manufacturer in India with an installed capacity of 116.8 million tonnes (including 5.4 MTPA capacity overseas). As of February 2021, UCL and its subsidiaries together have 23 integrated units, 27 grinding units, 2 white cement and wall putty units (1 putty plant under development), clinkerisation plant, 5 Jetties and 7 bulk terminals across India, the UAE, Bahrain and Sri Lanka. As on March 31, 2021, Grasim Industries Ltd ([ICRA]AAA(Stable)/[ICRA]A1+, the flagship company of the Aditya Birla group) held 57.28% equity stake in UCL.

Key financial indicators (audited)

UCL Consolidated	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	41,608.8	42,124.8	44,725.8
PAT (Rs. crore)	2,399.8	5,811.7	5,458.4
OPBDIT/OI (%)	17.7%	22.0%	25.9%
PAT/OI (%)	5.8%	13.8%	12.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.0	1.0
Total Debt/OPBDIT (times)	3.4	2.6	1.9
Interest Coverage (times)	4.1	4.7	7.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 28, 2021	April 27, 2020		March 15, 2019
1	Term Loans	Long-term	2652.75	2652.75	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA(SO) (Stable)
2	Fund based-Working Capital Facilities	Long-term and short term	25.00	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+	-	[ICRA]AAA(SO) (Stable)/ [ICRA]A1+(SO)
3	Non-fund based-Working Capital Facilities	Long-term and short term	125.00	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+	-	[ICRA]AAA(SO) (Stable)/ [ICRA]A1+(SO)
4	Unallocated Limits	Long-term and short term	197.25	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+	-	[ICRA]AAA(SO) (Stable)/ [ICRA]A1+(SO)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund based-Term Loan	Simple
Long-term/Short-term, Fund based- Working Capital Facilities (CC/WCDL)	Simple
Long-term/Short-term, Non-fund based-Working Capital Facilities (LC/BG)	Very Simple
Long-term/Short-term, Proposed working facilities	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loans	November 2018	6.65%	FY2039	2652.75	[ICRA]AAA(Stable)
NA	Fund based- Working Capital Facilities	NA	NA	NA	25.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Non-fund based-Working Capital Facilities	NA	NA	NA	125.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	197.25	[ICRA]AAA(Stable)/[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	UCL Ownership	Consolidation Approach
UltraTech Nathdwara Cement Limited (UNCL) (formerly known as Binani Cement Limited)	100.00% (rated entity)	Full Consolidation
Murari Holdings Limited (MUHL)#	100%	Full Consolidation
Star Super Cement Industries LLC (formerly known as Binani Cement Factory LLC) (SSCI) -stepdown subsidiary of MHL and MKHL)	100%	Full Consolidation
Binani Cement (Tanzania) Limited$	100%	Full Consolidation
BC Tradelink Limited., Tanzani$	100%	Full Consolidation
Binani Cement (Uganda) Limited$	100%	Full Consolidation
Mukundan Holdings Limited (MKHL)#	100%	Full Consolidation
Krishna Holdings PTE Limited (KHPL)^	100%	Full Consolidation
Shandong Binani Rongan Cement Company Limited (SBRCC), China- KHPL ceased to be a subsidiary w.e.f July 2020	100%	Full Consolidation
Swiss Mercandise Infrastructure Limited#	93%	Full Consolidation
Merit Plaza Limited#	100%	Full Consolidation
Bahar Ready Mix Concrete Limited (formerly known as Binani Ready Mix Concrete Limited)#	100%	Full Consolidation
Smooth Energy Private Limited (formerly known as Binani Energy Private Limited)#	100%	Full Consolidation
Bhumi Resources PTE Limited (BHUMI)# -includes PT Anggana Energy resources (Anggana), Indonesia	100%	Full Consolidation
Dakshin Cements Limited India	100%	Full Consolidation
Harish Cement Limited	100%	Full Consolidation
Gotan Limestone Khanij Udyog Private Limited	100%	Full Consolidation
Bhagwati Limestone Company Private Limited (BLCPL)	100%	Full Consolidation
UltraTech Cement Middle East Investments Limited (UCMEIL)	100%	Full Consolidation
Star Cement Co. LLC, Dubai@	100%	Full Consolidation
Star Cement Co. LLC, Ras-Al-Khaimah@	100%	Full Consolidation
Al Nakhla Crusher LLC, Fujairah@	100%	Full Consolidation
Arabian Cement Industry LLC, Abu Dhabi@	100%	Full Consolidation
UltraTech Cement Bahrain Company WLL Bahrain (formerly known as Arabian Gulf Cement Co WLL)@	100%	Full Consolidation
PT UltraTech Investments Indonesia	100%	Full Consolidation
PT UltraTech Cement Indonesia%	100%	Full Consolidation
PT UltraTech Mining Sumatera%	99%	Full Consolidation

Company Name	UCL Ownership	Consolidation Approach
PT UltraTech Mining Indonesia	100%	Full Consolidation
UltraTech Cement Lanka Private Limited (UCLPL)	80%	Full Consolidation
Bhaskarpara Coal Company Limited (BCCL)-Joint Venture	47.37%	Equity Method
Madanpur (North) Coal Company Private Limited (MNCCPL)-Associate	11.17%	Equity Method
Aditya Birla Renewable SPV 1 Limited-Associate	26.00%	Equity Method
Aditya Birla Renewable Energy Limited-Associate	26.00%	Equity Method

Source: *Annual report and quarterly results of UCL*

subsidiary of UNCL, @ subsidiary of UCMEIL, % subsidiary of PT UltraTech Investments Indonesia, ^55.54% held by UNCL and 44.46% held by MKHL, $ Subsidiaries of SSCI

Note: *ICRA has taken a consolidated view of the parent (UCL), its subsidiaries, joint venture and associates while assigning the ratings.*

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