July 15, 2022

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Long-term Fund-based - Term Loan	2,652.75	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
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	197.25	-	-
Total	**3,000.00**	**150.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated rating view on UltraTech Nathdwara Cement Limited (UNCL) and its parent company, UltraTech Cement Limited (UCL), given the common management and 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 ratings reaffirmation factors in UCL's market leadership position in the Indian cement industry, with a capacity market share of around 22% in FY2022. It has an installed capacity of 120.0 million tonnes per annum (MTPA), including an overseas capacity of 5.4 MTPA in March 2022. UCL has strengthened its position across the northern, eastern, western and central regions 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. Besides, the planned capacity additions of 16.3 MTPA in FY2023 and 22.6 MTPA by FY2025, are likely to further consolidate UCL's presence in the domestic market. Its pan-India presence reduces dependence on a particular region and insulates the performance from any downturns in any region. UCL has vertically integrated operations with access to captive limestone mines, captive power generation and efficient logistics driven by a pan-India presence.

UCL's financial position remains strong, as depicted by its healthy profitability and strong capital structure. UCL reported an increase in the top line by 18% YoY to Rs. 52,599 crore in FY2022, backed by 9% increase in volumetric growth and 7% improvement in the net sales realisations. While the operating margins declined by 400 bps in FY2022 due to an increase in input costs (power and fuel, freight and raw material costs), however, it remains healthy at 21.9%. Further, the net debt declined by 33% YoY to around Rs. 3,900 crore in March 2022, which improved the leverage with net debt/OPBIDTA at 0.3 times in FY2022 (P.Y:0.6 times) and healthy coverage metrics with interest cover at 12.2 times (PY: 7.8 times) and DSCR of 2.9 times (PY:3.3 times) in FY2022. While the volumes in FY2023 are expected to be supported by the demand from the housing - rural and urban - and infrastructure sectors, the elevated input costs are likely to further exert pressure on the operating margins. Further, while UCL has capex plans of around Rs. 7,800 crore in FY2023, these are likely to be largely met from internal cash flow generation, thus sustaining the leverage profile with net debt/OPBIDTA expected to remain below 0.7 times in March 2023. The ratings derive comfort from UCL's strong parentage (a part of the Aditya Birla Group), which lends considerable financial flexibility.

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. Despite the power, fuel and logistics mix adopted by UCL, its profitability remains susceptible to the fluctuations in 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 being a part of the Aditya Birla Group.

The rating assigned to the Rs. 2,652.75-crore term loans have been withdrawn in accordance with ICRA's policy on withdrawal and at the request of the company and based on the no-objection certificate provided by its banker.

Key rating drivers and their description

Credit strengths

Market leadership position in Indian cement industry and well-diversified geographical presence – UCL is the largest cement player in India with a domestic cement capacity of 114.6 MTPA (as of March 2022). With its capacities spread across the country, UCL's capacity market share is 22% as of March 2022. While the Binani Cement Limited (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 Century Textiles and Industries Limited's (CTIL) cement assets (14.6 MTPA) increased its foothold in the eastern, western and central markets besides providing access to limestone reserves. The company has successfully demonstrated its capability of turning around acquired capacities. Further, the planned capacity additions in the eastern and central regions are 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. Further, UCL's pan-India presence reduces dependence on a particular region and insulates the performance from any downturns in any region.

Financial profile remains strong despite cost headwinds - UCL's financial position remains strong as depicted by its healthy profitability and strong capital structure. It reported an increase in the top line by 18% YoY to Rs. 52,599 crore in FY2022, backed by 9% increase in volumetric growth and 7% improvement in the net sales realisations. While the operating margins declined by 400 bps in FY2022 due to an increase in input costs (power and fuel, freight and raw material costs), however, it remains healthy at 21.9%. Further, the net debt declined by 33% YoY to around Rs. 3,900 crore in March 2022, which improved the leverage with net debt/OPBIDTA at 0.3 times (P.Y: 0.6 times) and healthy coverage metrics with interest cover at 12.2 times (PY: 7.8 times) and DSCR of 2.9 times (PY: 3.3 times) in FY2022.

Besides the adequate cash and liquid investments of over Rs. 6,302.0 crore as on March 31, 2022, UCL enjoys access to the capital markets and bank finances, and considerable financial flexibility by being a part of the Aditya Birla Group.

Capital structure expected to remain strong despite capex plans - UCL has expansion plans of 16.3-MTPA cement capacity and 11.4 MTPA of clinker capacity, which is scheduled to be completed by FY2023. In FY2022, a capacity of 3.2 MTPA was commissioned as scheduled, of which 1.2 MTPA and 2.0 MTPA was added in the northern and central regions, respectively. Further, the company has plans to increase the capacity by 22.6 MTPA with a mix of brownfield and greenfield expansions by 2025. Although the company has a planned capex of ~Rs. 7,800 crore in FY2023, this is likely to be largely met from internal cash flow generation, thus sustaining the leverage profile with net debt/OPBIDTA expected to remain below 0.7 times in March 2023.

Strong growth prospects – In FY2022, UCL witnessed a sales volume growth of 9% YoY to 93.99 MTPA, supported by strong demand across the housing and infrastructure segments. In FY2023 too, the cement demand is expected to be supported by the demand from the housing (rural and urban), and infrastructure sectors.

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 level.

Susceptibility of profitability to fluctuations in input prices - Besides the power, fuel and logistics mix adopted by UCL, its profitability remains susceptible to the fluctuations in input prices. In FY2022, the OPM declined by 400 bps on a YoY basis primarily owing to an increase in the power & fuel, raw material and freight costs.

Liquidity position: Superior

UCL's liquidity position is superior, backed by strong balance of cash and liquid investments (Rs. 6,302.0 crore as on March 31, 2022), and unutilised fund-based limits (~Rs. 1,115 crore in April 2022). The long-term debt repayment obligations of Rs. 634 crore in FY2023 will be comfortably covered by the estimated cash flow from operations. The company has ongoing expansion plans (11.4 MTPA of clinker and 16.3-MTPA cement capacities) and another 22.6 MTPA of cement capacity that are expected to be completed by FY2023 and FY2025, respectively. The total capex outlay of Rs. 7,800 crore in FY2023 is expected to be largely funded by internal accruals. Besides maintenance and upkeep capex, the company will increase its WHRS capacity to 302 MW by FY2024, which will entail a capex of Rs. 1,800 crore to be incurred and is being 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, which will weaken the debt coverage metrics on a sustained basis, will be a negative. A specific credit metric for a downgrade is if net debt to EBITDA is greater than 2 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Cement Industry ICRA Policy on withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating of UNCL, ICRA has taken a consolidated rating view on UltraTech Nathdwara Cement Limited (UNCL) and its parent company, UltraTech Cement Limited (UCL), given the common management and 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. List of entities forming part of UCL's consolidated financials are enlisted in Annexure2.

About the company

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 and ready-mix concrete. UCL is the largest cement manufacturer in India with an installed capacity of 120.0 million tonnes (including 5.4-MTPA capacity overseas). As of March 2022, UCL and its subsidiaries together have 23 integrated units, 27 grinding units, one white cement and wall putty unit each, five jetties and eight bulk terminals across India and overseas. As on March 31, 2022, Grasim Industries Ltd ([ICRA]AAA(Stable)/[ICRA]A1+, the flagship company of the Aditya Birla Group) held a 58.14% equity stake in UCL.

Key financial indicators (audited)

UCL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	44,725.8	52,598.8
PAT (Rs. crore)	5,459.7	7,332.6
OPBDIT/OI (%)	25.9%	21.9%
PAT/OI (%)	12.2%	13.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.7
Total Debt/OPBDIT (times)	1.9	1.0
Interest Coverage (times)	7.8	12.2

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

Source: Annual reports, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 15, 2022	May 28, 2021	April 27, 2020	-
1	Term Loans	Long-term	2,652.75	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Fund based Working Capital Facilities	Long-term/ Short-term	25.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-
3	Non-fund based Working Capital Facilities	Long-term/ Short-term	125.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-
4	Long-term/Short-term, Proposed working facilities	Long-term/ Short-term	197.25	-	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund based Working Capital Facilities	Simple
Non-fund based Working Capital Facilities	Very Simple

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 analysing 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, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	NA	NA	NA	-	[ICRA]AAA (Stable); withdrawn
NA	Fund based Working Capital Facilities	NA	NA	-	25.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Non-fund based Working Capital Facilities	NA	NA	-	125.00	[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 UCMEIL)	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
Bhumi Resources PTE Limited (BHUMI)# -includes PT Anggana Energy resources (Anggana), Indonesia	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 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.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Nijara Kalita
+91 22 6114 3455
nijara.kalita@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches