ICRA

May 17, 2024

Birla Corporation Limited: Rating reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Non-convertible debenture	200.0	200.0	[ICRA]AA (Stable); reaffirmed; outlook revised to Stable from Negative
Long-term – Non-convertible debenture	50.0	50.0	[ICRA]AA (Stable); reaffirmed; outlook revised to Stable from Negative
Total	**250.0**	**250.0**	

Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Stable for Birla Corporation Limited (BCL) factors in the improvement in OPBIDTA/MT and debt protection metrics in FY2024, which are expected to further improve in FY2025. The OPBIDTA/MT improved significantly to Rs. 815/MT in FY2024 from Rs. 491/MT in FY2023 (Q4 FY2024: Rs. 974/MT), backed by healthy ramp-up in the recently started Mukutban plant and easing of input cost pressure (power and fuel). This along with revision in the capex plans resulting in lower than anticipated borrowing levels has led to improvement in total debt/OPBITDA to 2.7 times as of March 2024 from 5.8 times as of March 2023. With further ramp-up of the Mukutban plant and expected volume growth, the debt leverage metrics are expected to improve with estimated total debt/OPBITDA of 2.4 -2.6 times as of March 2025.

The rating continues to factor in BCL's strong market presence in the central region, where it enjoys a capacity market share of 11%. With the commencement of the 3.9 million MTPA Mukutban plant in April 2022, the company has strengthened its position in the western region. BCL's operating performance has improved over the years with capacity utilisation close to 89% in FY2024 (including Mukutban plant for which the utilisation improved to 48% in FY2024 from 20% in FY2023), driven by the synergies achieved post the ramp-up of operations of RCCPL Private Limited (RCCPL, wholly owned subsidiary of BCL) plants. The plant at Mukutban is eligible for fiscal incentives for 20 years, which is expected to accrue from Q1 FY2025 post approval from the state government. The timely receipt of approval from the Maharashtra government remains important. BCL has geographically diversified presence across the central, western, northern, and eastern markets, with a current total installed capacity of around 20 million MTPA, which insulates the performance from any downturn in the regions.

BCL reported an increase in the top line by 11% YoY to ~Rs. 9,663 crore in FY2024 (FY2023: Rs. 8,682 crore), backed by volumetric growth. Its revenues are likely to grow by ~4-5% in FY2025, given the strong demand from the housing and infrastructure sector as well as the incremental sales from the Mukutban plant. The OPBITDA/MT is estimated to improve by 6-7% in FY2025 led by ramp-up of the Mukutban plant.

The rating is, however, constrained by the cyclical nature of the cement industry, which leads to variability in profitability and cash flows. BCL's operating profitability remains susceptible to fluctuations in input prices. The company has capex plans of around Rs. 800-1000 crore in FY2025, primarily towards capacity expansion, coal block, debottlenecking, and sustenance capex, which is expected to be funded through debt-equity ratio of 2:1. While the expected improvement in operating margins is estimated to improve the coverage metrics in FY2025, however, will remain moderate. ICRA takes comfort from BCL's comfortable liquidity profile, supported by a sizeable liquid investment portfolio and significant undrawn working capital lines.

Key rating drivers and their description

Credit strengths

Healthy utilisation levels and efficient operating parameters aided by synergies across the units – BCL's operating performance has improved over the years with capacity utilisation close to 89% in FY2024 (including Mukutban plant for which the utilisation improved to 48% in FY2024 from 20% in FY2023), driven by the synergies achieved post the ramp-up of operations of RCCPL Private Limited (RCCPL, wholly owned subsidiary of BCL) plants. The plant at Mukutban is eligible for fiscal incentives for 20 years, which is expected to accrue from Q1 FY2025 post approval from the state government. The timely receipt of approval from the Maharashtra government remains important.

Geographically diversified capacities and established position in the central market – BCL has geographically diversified presence across the central, western, northern, and eastern markets, with a current total installed capacity of around 20 million MTPA, which insulates the performance from any downturn in the regions. The company has a strong market presence in the central region, where it enjoys a capacity market share of 11%. With the commencement of the 3.9 million MTPA Mukutban plant in April 2022, the company has strengthened its position in the western region.

Strong long-term growth prospects – BCL reported an increase in the top line by 11% YoY to ~Rs. 9,663 crore in FY2024 (FY2023: Rs. 8,682 crore), backed by volumetric growth. Its revenues are likely to grow by ~4-5% in FY2025, given the strong demand from the housing and infrastructure sectors as well as the incremental sales from the Mukutban plant. The OPBITDA/MT is estimated to improve by 6-7% in FY2025 led by ramp-up of the Mukutban plant. Notwithstanding the large capital expenditure plans undertaken during the past three years, the company has been able to maintain a sizeable liquid investment portfolio and healthy cushion in working capital facilities, which further strengthen its liquidity profile.

Credit challenges

Moderate debt protection metrics due to debt-funded capex – The company has capex plans of around Rs. 800-1000 crore in FY2025, primarily towards capacity expansion, coal block, debottlenecking, and sustenance capex, which is expected to be funded through debt-equity ratio of 2:1. While the expected improvement in operating margins is estimated to improve the coverage metrics in FY2025, however, will remain moderate.

Vulnerability of revenues to cyclicality in economy – BCL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. When the capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, BCL's operating profitability remains susceptible to fluctuations in input prices.

Environmental and social risks

Environmental considerations: As a cement producer, the fuel consumption of BCL is high, which results in greenhouse gas emissions and pollution. Hence, the increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for cement producers. BCL has taken several initiatives, such as increasing the usage of renewable energy (solar power and WHRS accounted for 24% of the total power consumption in FY2024), increasing the use of fly ash, slag (which are waste materials of the power and steel industries), and alternative fuel at its clinker manufacturing units, which help in reducing the carbon footprint and save power costs.

Social considerations: The social risks associated with the company are primarily the health and safety of its employees involved in the mining of limestone and the production of clinker and cement.

Liquidity position: Strong

BCL's liquidity position is strong, backed by healthy unencumbered cash and liquid investments (Rs. 766.0 crore as on March 31, 2024). Additionally, the DP backed fund-based working capital lines of BCL and RCCPL remain largely undrawn with an average cushion of Rs. 633 crore at the consolidated level during January 2023-December 2023, which further strengthens its liquidity profile. The company has debt repayment obligations of Rs. 572.0 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations. It has capex plans of around Rs. 800 - 1000 crore primarily towards capacity expansion, coal block, debottlenecking, and maintenance capex in FY2025, which is expected to be funded through debt equity ratio of 2:1.

Rating sensitivities

Positive factors – BCL's rating can be upgraded if there is a significant growth in its revenues and earnings and a consequent improvement in debt protection metrics and return indicators on a sustained basis. Additionally, total debt to EBITDA of less than 1.75 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – The rating can be downgraded if there is material decline in profitability or significant increase in debt funded capex resulting in weakening of debt protection metrics. Total debt to EBITDA increasing beyond 3.0 times, on a sustained basis, can put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology–Cement
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BCL. As on March 31, 2024, the company had seven subsidiaries and three step down subsidiaries, which are all enlisted in Annexure II.

About the company

Birla Corporation Limited (BCL), the flagship company of the M.P. Birla Group, was incorporated on August 25, 1919. It manufactures cement and jute goods. After the death of Mrs. Priyamvada Birla, wife of Mr. Madhav Prasad Birla, in July 2004, BCL was headed by Mr. Rajendra Singh Lodha. Following his death in October 2008, his son, Mr. Harsh Vardhan Lodha, took over the charge as the company's Chairman. However, BCL's ownership is under legal dispute, being contested by Mr. Harsh Vardhan Lodha and the descendants of the Birla family.

BCL has an installed cement manufacturing capacity of 10 million MTPA, with presence in the central, northern and eastern markets. In August 2016, BCL acquired RCCPL Private Limited (RCCPL), which increased the Group's consolidated cement manufacturing capacity to 15.58 million MTPA. Further, in April 2022, RCCPL's 3.9 million MT integrated cement plant in Mukutban (Maharashtra) commenced operations along with other debottlenecking projects, taking the total capacity to 20 million MT. The revenues from the cement business dominate BCL's top line, accounting for 95-96% of the consolidated turnover, while the jute business contributed to the balance 4-5% in FY2023 and FY2024.

Key financial indicators (audited)

BCL Consolidated	FY2023	FY2024
Operating income	8,682.3	9,662.7
PAT	40.5	420.6
OPBDIT/OI	8.9%	14.9%
PAT/OI	0.5%	4.4%
Total outside liabilities/Tangible net worth (times)	1.6	1.3
Total debt/OPBDIT (times)	5.8	2.7
Interest coverage (times)	2.3	3.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 17, 2024	Aug 23, 2023	Aug 26, 2022	Aug 27, 2021
1	9.25% Non-convertible debenture	Long term	200.00	200.0	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	9.25% Non-convertible debenture	Long term	50.00	50.0	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	9.15% Non-convertible debenture	Long term	-	-	-	-	-	[ICRA]AA (Stable) withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE340A07084	**Non-convertible debenture**	Aug 2016	9.25%	FY2025-FY2027	200.00	[ICRA]AA (Stable)
INE340A07092	**Non-convertible debenture**	Sep 2016	9.25%	FY2025-FY2027	50.00	[ICRA]AA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	BCL Ownership	Consolidation Approach
RCCPL Private Limited	100.00%	Full Consolidation
Birla Jute Supply Company Limited	100.00%	Full Consolidation
Talavadi Cements Limited	98.01%	Full Consolidation
Lok Cements Limited	100.00%	Full Consolidation
Budge Budge Floorcoverings Limited	100.00%	Full Consolidation
Birla Cement (Assam) Limited	100.00%	Full Consolidation
M.P. Birla Group Services Pvt. Limited	100.00%	Full Consolidation
AAA Resources Private Limited	100.00%	Full Consolidation
Utility Infrastructure & Works Private Limited	100.00%	Full Consolidation
SIMPL Mining & Infrastructure Limited	100.00%	Full Consolidation

Source: Company Data, ICRA research

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About ICRA Limited:

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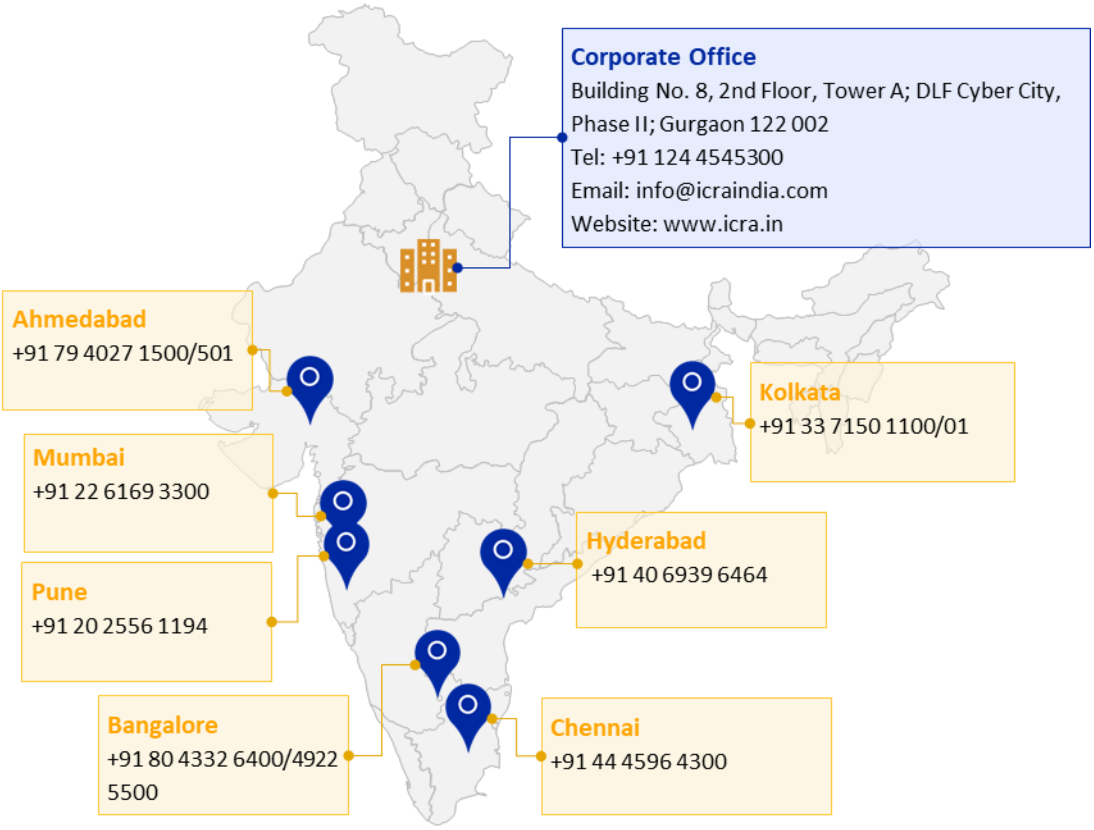

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