

May 31, 2019

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

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
9.25% Non-Convertible Debenture	200.00	200.00	[ICRA]AA reaffirmed; outlook revised from Negative to Stable
9.25% Non-Convertible Debenture	50.00	50.00	[ICRA]AA reaffirmed; outlook revised from Negative to Stable
9.15% Non-Convertible Debenture	150.00	150.00	[ICRA]AA reaffirmed; outlook revised from Negative to Stable
Total	400.00	400.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook reflects the improvement in the BCL's (consolidated entity) performance in FY2019, which as per ICRA's expectation, is likely to sustain in the near to medium term, given the favourable demand outlook for the cement industry coupled with limited supply addition in BCL's core market. Besides, sizeable cost savings are expected in RCCPL Private Limited (RCCPL), the wholly-owned subsidiary of BCL, in FY2020, driven by the likely commencement of Waste Heat Recovery System (WHRS)-based power plant as well as other cost-improvement initiatives undertaken in the recent past. ICRA notes that BCL's dependence on external limestone purchase for its Chanderia plant has reduced over the years and the recent interim order of the National Green Tribunal (NGT)¹ is unlikely to have a material impact on the mining operation of the company. The rating continues to factor in BCL's large scale and vertically integrated nature of operations, having a consolidated cement capacity of 15.58 million tonne per annum (mtpa) and the company's wide distribution network in the central, eastern, and northern markets, which supported capacity utilisation level of at least 80% across business cycles. RCCPL's performance has also improved significantly over the years, reaching a capacity utilisation of around 88% in FY2019 from around 63% in FY2017, helping the M.P. Birla Group consolidate its market position in Central India. Efficient operations of RCCPL's plants, security in sourcing of main raw materials including limestone and coal, and availability of substantial fiscal incentives from Uttar Pradesh and Madhya Pradesh Governments, have resulted in substantially better operating profitability of RCCPL than BCL. ICRA estimates that RCCPL would continue to account for a major portion of BCL's consolidated turnover and profits, going forward. The long-term rating of the company is, however, constrained by the cyclical nature of the cement industry, which leads to variability in profitability and cash flows of the company. The debt-funded acquisition of RCCPL results in subdued debt coverage indicators, notwithstanding the improvement of the consolidated entity in FY2019. ICRA notes that RCCPL is in the process of setting up a greenfield cement plant at Mukutban in Maharashtra at an estimated cost of Rs. 2,450 crore, a part of which would be funded by a debt-equity mix of 2:1. While the integrated nature of the plant, with access to captive limestone mines, would lead to a further strengthening of the operating profile of the consolidated entity over the long term, the debt to be contracted for the same would limit the improvement in debt coverage indicators over the medium term. ICRA, however, notes BCL's comfortable liquidity profile, supported by a sizeable liquid investment portfolio and a large undrawn working capital lines. Further, being a part of the M.P. Birla Group, BCL derives high financial flexibility, as reflected by its demonstrated ability to raise loans at competitive rates.

¹ In March 2019, NGT has ordered to stop all mining activities which are being carried on within the municipal limits of Chittorgarh city and within 10 km of Bassi Wildlife Sanctuary. However, it is unlikely to have any major impact on BCL's mining operation.

Outlook: Stable

The Stable outlook underpins ICRA's expectation that the company's performance will continue to improve given the favourable demand outlook for the cement industry and limited supply addition in BCL's core market. Significant cost savings expected in FY2020 will also support its performance. The outlook may be revised to Positive in case of a significant improvement in profitability and debt coverage indicators of the company. The outlook may be revised to Negative if there is a significant reversal in the industry conditions on a sustained basis. In addition, timely receipt of incentives from the respective State Governments and execution of the project without any material cost and time overrun would remain key rating sensitivities.

Key rating drivers

Credit strengths

Improvement in performance in FY2019- In line with the industry, BCL has registered a volume growth of around 10% in FY2019. The OPBDITA was also higher at around Rs. 967 crore (compared to Rs. 824 crore in FY2018). The debt coverage indicators also improved, although the same continued to remain moderate. The outlook for the cement industry continues to remain favourable with expected demand from the housing sector, primarily rural and affordable housing and improved Government focus on infrastructure segments, mainly roads, railway and irrigation projects. In addition, the Central India region has witnessed consolidation over the past couple of years, which is likely to bring price stability in the region, thus supporting cement players based out of Central India, including BCL.

Comfortable liquidity profile and high financial flexibility – BCL's consolidated liquid investment portfolio as on March 31, 2019 was around Rs. 741 crore and notwithstanding the large capital expenditure plans in the medium term, the company plans to maintain a sizeable liquid investment portfolio in the next two years. Additionally, the working capital lines of BCL and RCCPL remain largely undrawn, which further strengthen the company's liquidity profile. ICRA further notes that the favourable liquidity profile of other Group entities of M.P. Birla Group provides additional comfort.

BCL also derives high financial flexibility for being a part of the M.P. Birla Group, as reflected by its demonstrated ability to raise loans at competitive rates and favourable repayment terms.

Large scale and vertically integrated nature of operations along with high capacity utilisation across business cycles – BCL has a consolidated cement capacity of 15.58 mtpa, of which BCL has 10 mtpa and RCCPL has 5.58 mtpa. The company's operations remain vertically integrated, supported by clinkerisation facility of 10 mtpa, captive limestone and coal mines, as well as captive power plant of 77.5 MW. BCL's wide distribution network in the Central and Eastern markets has supported a standalone capacity utilisation level of at least 80% across business cycles.

Efficient operating parameters and a steady ramp-up in production of RCCPL – Commissioned in November 2014, RCCPL (5.58 mtpa of integrated cement facilities distributed in Madhya Pradesh, Uttar Pradesh and Maharashtra) has been able to steadily ramp up the plant capacity utilisation level from 59% in FY2016 to 81% in FY2018, and further to 88% in FY2019. Built on European technology, these plants have been able to demonstrate highly efficient operating parameters, thus keeping production costs at a low level. In addition, the expected commissioning of the power plant based on Waste Heat Recovery System in Q1FY2020 coupled with ramping up of coal mining operation as well as setting up of a railway siding in Kundanganj plant, are expected to save costs for the company. Other cost improvement initiatives are also expected at the consolidated level, which are likely to further strengthen its operating profile, going forward.

Substantial fiscal incentives available to RCCPL, giving it a competitive advantage over peers - RCCPL's plants would continue to receive substantial fiscal incentives from the Governments of Uttar Pradesh and Madhya Pradesh over an extended time frame, which gives the company a competitive advantage, leading to a healthy profitability. In FY2019, RCCPL has been able to report an EBITDA² of Rs. 1,170 per tonne of dispatches, leading most Central India-based cement players on the profitability parameter. ICRA notes that apart from efficient operations and steadily rising volumes, leading to higher asset sweating, substantial fiscal incentives contributed significantly to RCCPL's healthy profitability. Going forward, timely recovery of incentives from the respective state Governments would remain a key rating driver.

Credit challenges

Moderate consolidated debt-coverage indicators post the leveraged acquisition of RCCPL - Post the leveraged acquisition of RCCPL, BCL's consolidated debt protection metrics remain at a moderate level. The consolidated debt stood at Rs. 4,049.2 crore as on March 31, 2019. The total debt/ OPBITDA stood at 4.18 times in FY2019 (improved from 5.01 in FY2018) and Interest Cover of 2.61 times (improved from 2.18 in FY2018). The total debt is expected to remain elevated over the next two years owing to large debt-funded capex plans of the company. Despite moderate debt coverage indicators, BCL's comfortable liquidity profile would continue to support its financial risk profile in the medium term.

Large debt-funded capex plans of RCCPL to set up a greenfield cement plant in Maharashtra, exposing the company to execution risks – RCCPL has plans to set up a greenfield integrated cement plant at Mukutban, in Maharashtra, having a capacity of 3.9 mtpa at a budgeted cost of around Rs. 2,450 crore³. The project will be funded through a debt-equity mix of 2:1. ICRA believes that such a sizeable debt-funded capex exposes the company to execution risks and limits the possibility of improvement in consolidated debt coverage indicators over the medium term. However, the experience of the management in operating an integrated cement plant provides some comfort.

Vulnerability of revenues to cyclicity in economy; susceptibility of profitability to fluctuations in input prices – BCL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by cyclical economic trends and capacity additions by the players during such periods. Besides the power, fuel and logistics mix adopted by BCL, its profitability remains susceptible to fluctuations in input prices. Input costs, primarily of pet coke and coal, remained high till Q3 FY2019, though the same has eased in the recent months.

Liquidity position

The liquidity position of the company is supported by liquid investment portfolio of around Rs. 741 crore as on March 31, 2019. In addition, the working capital lines of BCL and RCCPL remain largely undrawn, which further strengthens the company's liquidity profile. Notwithstanding the large capital expenditure plans in the medium term, the management plans to maintain a sizeable investment portfolio over the next two years. ICRA further notes that the favourable liquidity profile of other Group entities of M.P. Birla Group provides additional comfort.

² Earnings before interest, tax, depreciation, and amortisation

³ Prior to takeover, RCCPL have already incurred approximately Rs. 200 crore capex at Mukutban, a part of which has been towards land acquisition

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on BCL's consolidated financial profile. As on March 31, 2019, BCL had seven subsidiaries, enlisted in Annexure 2.

About the company

Birla Corporation Limited (BCL), the flagship company of the M.P. Birla Group, was incorporated on August 25, 1919, and 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, and after his death in October 2008, his son Mr. Harsh Vardhan Lodha, took over the charge as the Chairman of the company. However, the ownership of BCL 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 mtpa, with a presence in the central, northern and eastern markets. Revenues from the cement business dominate BCL's top line, accounting for around 95% of the consolidated turnover. In August 2016, BCL has acquired RCCPL Private Limited (RCCPL), which has increased the Group's consolidated cement-manufacturing capacity to 15.58 mtpa.

In FY2019, BCL reported a consolidated net profit of Rs. 255.70 crore on an operating income of Rs. 6,548.73 crore compared to a net profit of Rs. 153.95 crore on an operating income of Rs. 5,747.16 crore in the previous year.

Key financial indicators (audited)- Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	5747.16	6548.73
PAT (Rs. crore)	153.95	255.70
OPBDIT/OI (%)	14.34%	14.78%
RoCE (%)	7.37%	9.48%
Total Debt/TNW (times)	1.19	1.10
Total Debt/OPBDIT (times)	5.01	4.18
Interest coverage (times)	2.18	2.61

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2018 Feb 2018	Date & Rating in FY2018 Oct 2017	Date & Rating in FY2017 Aug 2016	
1 9.25% Non- Convertible Debenture	Long Term	200.00	200.00	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2 9.25% Non-Convertible Debenture	Long Term	50.00	50.00	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
3 9.15% Non-Convertible Debenture	Short Term	150.00	150.00	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE340A07084	9.25% Non- Convertible Debenture	Aug 2016	9.25%	FY2025- FY2027	200.00	[ICRA]AA (Stable)
INE340A07092	9.25% Non-Convertible Debenture	Sep 2016	9.25%	FY2025- FY2027	50.00	[ICRA]AA (Stable)
INE340A07076	9.15% Non-Convertible Debenture	Aug 2016	9.15%	FY2022	150.00	[ICRA]AA (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RCCPL Private Limited	100.00%	Full Consolidation
Birla Jute Supply Company Ltd.	100.00%	Full Consolidation
Talavadi Cements Ltd.	98.01%	Full Consolidation
Lok Cements Ltd.	100.00%	Full Consolidation
Budge Budge Floorcoverings Ltd.	100.00%	Full Consolidation
Birla Cement (Assam) Ltd.	100.00%	Full Consolidation
M.P. Birla Group Services Pvt. Ltd.	100.00%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

022-61143406

shivakumar@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

About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents