July 31, 2024

Birla Carbon India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short-term, fund-based/non-fund based facilities	1600.00	800.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Commercial paper programme	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**1700.00**	**900.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Birla Carbon India Private Limited's (BCIPL) position as one of the leading players in the domestic carbon black industry. It has a strong parentage as it is a part of the Aditya Birla Group, a leading player in the global carbon black business, and benefits from the associated financial flexibility and the Group's technical know-how and scale of operations.

The ratings factor in BCIPL's healthy credit profile, marked by negligible debt levels, availability of healthy cash balances and comfortable cash flow generation. BCIPL's turnover dipped in FY2024 because of a moderation in realisations, even as the volumes increased due to an uptick in demand from the tyre industry. BCIPL was able to maintain its EBITDA/MT level at Rs. 16,000-17,000/MT in FY2024 and this is expected to stay in a similar range, going forward. Thus, the overall profit generation is likely to remain healthy. ICRA expects a steady growth in domestic demand for tyres, which is likely to translate into growth in demand for carbon black.

ICRA also notes that the company is in the process of undertaking a debt-funded capex of around Rs. 1,200 crore under its 100% subsidiary. A part of the funding will be met by equity contribution from the existing cash flows and the available liquidity of BCIPL. Thus, during the capex implementation period, the credit profile of BCIPL (consolidated) may witness some moderation with the addition of debt.

Moreover, ICRA notes that there has been an increase in inter-corporate deposits (ICDs) to Rs. 1,651 crore as on March 31, 2024, from Rs. 1,112 as on March 31, 2023, extended by BCIPL to its Group companies. However, BCIPL's liquidity position and debt coverage indicators have remained comfortable amid a healthy cash generation from the business.

The ratings are tempered by high customer concentration risk with the top three customers accounting for ~54% of its FY2024 revenues along with the high end-user industry concentration. However, the strong credit profile of its customers reduces the counterparty credit risk. The ratings also consider the inherent cyclicality of the business and the exposure of the company's margin to the adverse movement in raw material prices. However, ICRA notes that the company was able to mostly pass on such price hikes in the past, which provides some comfort. The ability of the company to pass on the price rise in a timely manner to avoid any impact on the margins will remain a key credit consideration. Further, the ratings consider the sizeable proportion of funds extended by BCIPL to its Group companies, which had resulted in reliance on external debt in the past.

The Stable outlook on the long term rating factors in ICRA's expectation of continuation of a healthy cash generation from the business, driven by its prominent position in the Indian carbon black industry. While the debt levels are expected to increase as the company embarks upon a greenfield capex, the overall credit profile is likely to remain comfortable.

Key rating drivers and their description

Credit strengths

Leading position in domestic carbon black industry – BCIPL enjoys a leadership position in the domestic carbon black industry with a production capacity of 3,82,200 metric tonnes per annum (MTPA) and sales of 3,48,140 MT in FY2024. It has a healthy market share of ~30% in the domestic carbon black industry.

Financial flexibility as part of Aditya Birla Group – BCIPL benefits from its strong parentage and the financial flexibility from being a part of the Aditya Birla Group. The Group's total annual production capacity of carbon black is over 2.0 million MTPA. Birla Carbon, the Group's carbon black business, is one of the largest global players in this space. The Group derives synergies by marketing under the Birla Carbon brand, and by central procurement of the feedstock. Further, BCIPL benefits from the Group's technical know-how, its scale of operations and the geographically diversified carbon black operations. BCIPL leverages the Group's technologies for using alternative sources of raw materials, depending on the cost economics.

Healthy profitability and negligible debt on the books – BCIPL's profit margins have remained healthy. The operating profit margins increased to 13.9% in FY2024 from 12.5% in FY2023 due to stable raw material prices. The company has largely been able to maintain its EBITDA/tonne at Rs. 16,000-17,000. The return on capital employed stood at 19.2% in FY2024. The debt on the books remained negligible, resulting in healthy leverage indicators.

Favourable demand prospects for end-consumer tyre industry – The company derives 90-95% of its revenues from the automobile industry as carbon black is a critical raw material for tyres. The domestic demand for carbon black is expected to remain healthy; the demand growth is seen in the range of 5-7% owing to the growing OEM and replacement demand.

Industry-leading clientele – The company derives ~54% of its revenues from its top three customers - MRF, Apollo & JK Tyres. These three companies have a market share of ~56% in the Indian domestic market. Though the company's customer concentration remains high as majority of the revenue is derived from the three entities, the dominant market share of the customers reduces the concentration risk.

Credit challenges

Significantly high loans and advances/ICDs to Group companies– The company has been supporting its Group companies by extending ICDs and advances, which impacted its debt profile adversely in FY2020. While since then, the amount outstanding was on a downward trajectory till FY2023, the advances increased to Rs. 1,651 crore as on March 31, 2024, from Rs. 1,112 as on March 31, 2023. These ICDs generate interest income for the company. Moreover, given the healthy cash generation, this increase in ICDs has not impacted the company's liquidity position.

Large capital expenditure may exert pressure on cashflows and moderate its financial risk profile – BCIPL is undertaking a large capital expenditure plan under its 100% subsidiary to expand its capacities. The new capex is likely to add around 120-KT capacity and is expected to entail a total outlay of around Rs. 1,200 crore. The capex is proposed to be funded by BCIPL's accruals of Rs. 500 crore and the balance by external debt. While project-related risks are there, comfort can be drawn from the long-standing presence of the Group in the market and its healthy relationships with the end customers.

Business growth susceptible to cyclicality in domestic automobile industry – The automobile industry is BCIPL's end-user sector, exposing the company's revenue growth and profit margins to the cyclicality in the domestic automobile industry. However, the sale of surplus power generated as a by-product of the manufacturing process provides some cushion against the inherent cyclicality in the carbon black business.

High end-industry and client concentration – BCIPL derives ~90% of its revenues from the automobile industry by supplying carbon black for tyres and other parts, thus exposing its operations to concentration risk. Moreover, its top three customers accounted for around 54% of its revenues in FY2024, which points to high customer concentration as well. Nevertheless, the concentration risk is mitigated to some extent, given the reputed customers and BCIPL's healthy relationship with them.

Liquidity position: Strong

Despite the significant loans and advances/ICDs given to Group companies (Rs. 1,651 crore as on March 31, 2024), BCIPL's liquidity position is strong as it has been generating robust free cash flows amid moderate working capital requirements. The company has no major annual long-term debt repayment obligation as on date. Further, BCIPL's liquidity is supported by the largely unutilised fund-based limits and the availability of cash balances of more than Rs. 175 crore as on March 31, 2024. Moreover, it enjoys strong financial flexibility as a part of the Aditya Birla Group.

Rating sensitivities

Positive factors – ICRA could upgrade BCIPL's ratings if it is able to demonstrate a healthy growth in its scale of operations and cash flow generation, while maintaining low debt levels, translating into healthy credit metrics.

Negative factors – The ratings can be downgraded if sizeable advances to Group companies and/or sizeable dividend payouts impact the company's liquidity position or result in reliance on external debt. Further, the ratings can be under pressure if there is a significant decline in margins, or if a large debt-funded capex impacts the coverage indicators, leading to a total debt/OPBDITA of more than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

BCIPL, an Aditya Birla Group Company, is a wholly-owned subsidiary of SKI Carbon Black (Mauritius) Limited, which is a wholly-owned subsidiary of SKI Investments Pte Limited. With effect from April 01, 2013, SKI Carbon Black (India) Private Limited (now BCIPL) acquired the carbon black business (Hi-Tech Carbon) of Aditya Birla Nuvo Limited (ABNL), on a going-concern basis, by way of a slump sale for a lump sum consideration of Rs. 1,451 crore as enterprise value. SKI Carbon has also acquired the co-generation power plants with a capacity to generate 73.7 MW units per annum.

The Hi-Tech Carbon business started its operations in 1988 from Renukoot (Uttar Pradesh). In 1998, it opened its second plant at Gummidipoondi (Tamil Nadu) and commissioned its third plant at Patalganaga in Maharashtra in 2010. The company's research and development centre is at Taloja (Maharashtra), the registered office is in Mumbai, marketing office in Delhi and the regional office in Chennai, along with stocking points in several states.

Key financial indicators (audited)

BCIPL	FY2023	FY2024
Operating income	4486.2	4269.1
PAT	369.0	448.3
OPBDIT/OI	12.5%	13.9%
PAT/OI	8.2%	10.5%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	38.6	104.0

Source: Company; ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;

Amount in Rs. crore

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Jul 31, 2024	28-Jul-23	25-Nov-22	29-Jul-22	06-Jul-21
1	**Commercial paper programme**	Short term	100.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	**Fund-based /Non-fund based facilities**	Long term and Short term	800.00	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**
3	**Term loan**	Long term	-	-	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term and long term fund-based/Non-fund based facilities	Very Simple
Commercial paper programme	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
NA	**Long term/Short term, fund-based /Non-fund based facilities**	NA	NA	NA	800.00	[ICRA]AA (Stable)/[ICRA]A1+
Yet to be placed	**Commercial paper programme**	NA	NA	7-365 days	100.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Birla Carbon AP Private Limited	100.00%	Full

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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.

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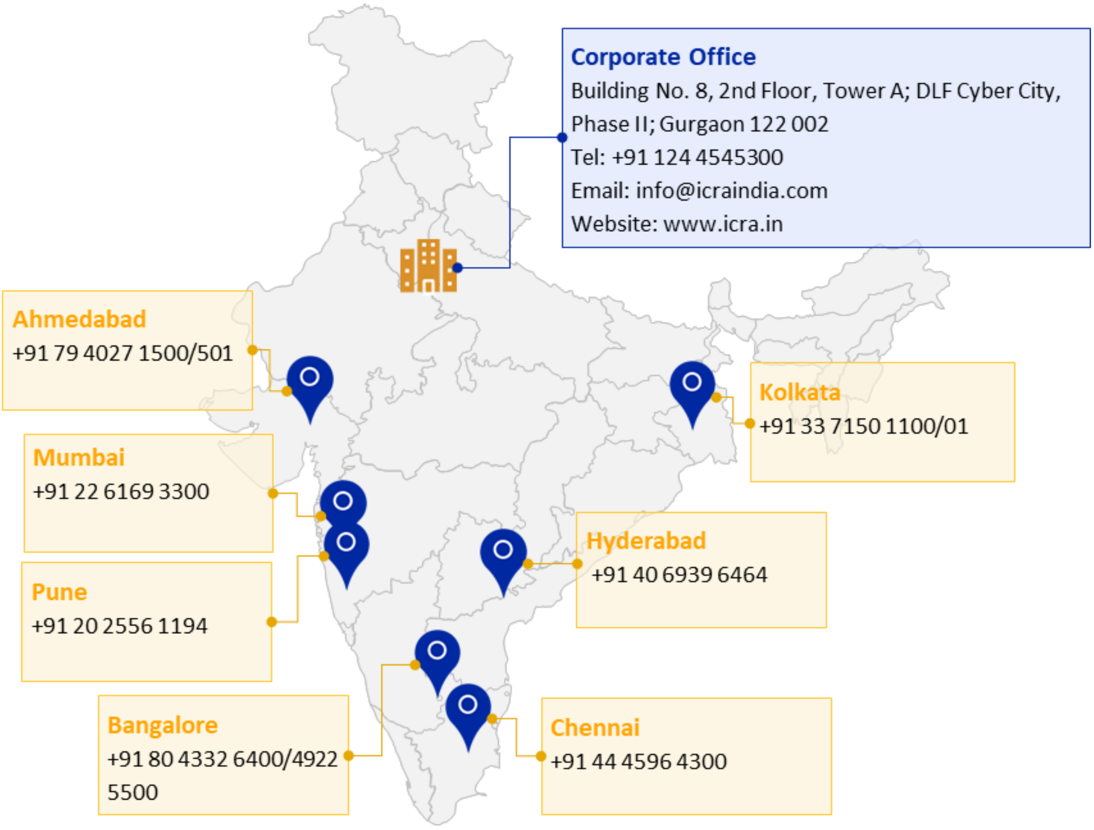

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