August 31, 2020

Birla Corporation Limited: Rating reaffirmed

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 (Stable) reaffirmed
9.25% Non-Convertible Debenture	50.00	50.00	[ICRA]AA (Stable) reaffirmed
9.15% Non-Convertible Debenture	150.00	150.00	[ICRA]AA (Stable) reaffirmed
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Birla Corporation Limited's (BCL) large scale and vertically integrated nature of operations along with a wide distribution network in the central, eastern, and northern markets, which supported healthy capacity utilisation levels across business cycles. In FY2020, the performance continued to remain steady with capacity utilisation of around 90% at the consolidated level, which coupled with better cement realisation led to an improvement in the profitability and cash accruals of the entity. The debt coverage indicators also improved, although the same continued to remain moderate. While the volumes were impacted in April 2020 amid the lockdown, the same gradually improved from May 2020, supported by rural demand, with a pick- up in rural housing and better availability of construction workers in those areas. As the rural market contributes almost 60-70% to BCL's total sales, favourable rural mix coupled with soft raw material cost and other cost rationalisation initiatives are likely to partly cushion the impact of the Covid-19 pandemic and support the entity's performance in FY2021. Besides, sizeable cost savings are also expected in RCCPL Private Limited (RCCPL), the wholly owned subsidiary of BCL, through various cost savings projects completed in the recent past. RCCPL's performance has also improved significantly over the years, reaching a capacity utilisation of around 91% in FY2020 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 the 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. The debt-funded acquisition of RCCPL results in subdued debt coverage indicators, notwithstanding the improvement of the consolidated entity in FY2020. ICRA notes that RCCPL is in the process of setting up a greenfield cement plant at Mukutban in Maharashtra at an estimated cost of around Rs. 2,500 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 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.

Key rating drivers and their description

Credit strengths

Improvement in financial performance in FY2020; better rural demand and lower raw material cost to support performance in FY2021, though volumes would be impacted amid Covid-19 pandemic – The financial performance of BCL improved at the consolidated level in FY2020 with around 40% growth in OPBITDA (Rs. 1,350 crore in FY2020 against Rs.968 crore in FY2019), primarily driven by stable volume and better realisation. The improvement in realisation was driven by an increase in the proportion of the premium cement (8% volume growth and overall share of the same within the trade segment improved to 40% in FY2020 from 37% in FY2019). The debt coverage indicators also improved, although the same continued to remain moderate.

In FY2021, while the production and sales volumes were impacted in April 2020 amid the lockdown, the situation gradually improved from May 2020, supported by rural demand, with a pick-up in rural housing and better availability of construction workers in those areas. As the rural market contributes almost 60-70% to the total sales of BCL, favourable rural mix coupled with soft raw material cost and other cost rationalisation initiatives are likely to support its performance in FY2021, notwithstanding the moderation expected in the overall scale of business and absolute profits to an extent. In addition, the Central India region has witnessed a 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, 2020 was around Rs. 932 crore. Notwithstanding the large capital expenditure plans in the next two years, the company plans to maintain a sizeable liquid investment portfolio. Additionally, the working capital lines of BCL and RCCPL remain largely undrawn, which further strengthen the company's liquidity profile. ICRA notes that the favourable liquidity profiles of other entities of the M.P. Birla Group provide 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 production 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 power generating capacity of around 100 MW through a mix of captive power plant, waste heat recovery system (WHRS) based and solar power plant. BCL's wide distribution network with presence in the Central Eastern and Northern markets supported a standalone capacity utilisation level of at least 80-85% across business cycles. With the commencement of the Mukutban greenfield project next year, the company will further diversify its footprints to the Western market.

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's capacity utilisation level to 88% in FY2019, and further to 91% in FY2020 from 63% in FY2017. Built on the European technology, these plants have been able to demonstrate highly efficient operating parameters, keeping production costs at a low level. In addition, commissioning of the WHRS-based power plant in

FY2020, ramping up of coal mining operation and other initiatives are likely to further strengthen its operating profile and result in significant cost savings for the company.

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 Government of Uttar Pradesh over an extended time frame, which give the company a competitive advantage, leading to a healthy profitability. In FY2020, RCCPL has been able to report an EBITDA[1] of Rs. 1,378 per tonne of dispatches, leading over 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. The upcoming new plant at Mukutban is also eligible for fiscal incentives for 20 years. Going forward, timely receipt 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. 4,289.9 crore as on March 31, 2020. The total net debt/ OPBITDA stood at 2.48 times in FY2020 (improved from 3.42 in FY2019) and Interest Cover at 3.48 times (improved from 2.61 in FY2019). 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 expose the company to execution risks – RCCPL has plans to set up a greenfield integrated cement plant at Mukutban, in Maharashtra, with a capacity of 3.9 mtpa at a budgeted cost of around Rs. 2,500 crore[2]. The project will be funded through a debt-equity mix of 2:1. Out of the same, the company has already incurred more than Rs.1,100 crore till FY2020 and the balance is expected to be incurred in the next two financial years. The plant is expected to commence commercial production in Q2 FY2022, with a slight delay of 4-5 months from the earlier expectation owing to operational challenges amid the Covid-19 pandemic. ICRA believes that such a sizeable debt-funded capex exposes the company to execution risks and limits the possibility of an improvement in the consolidated debt coverage indicators over the medium term. However, the experience of the management in operating an integrated cement plant provides comfort.

Vulnerability of revenues to cyclicality 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 power, fuel and logistics mix adopted by BCL, its profitability remains susceptible to fluctuations in input prices, primary pet coke and coal. While pet coke prices have recently increased to the previous year's levels, imported coal prices have substantially declined in the current year till date. However, high diesel price is likely to offset the improvement in raw material cost to an extent. Nonetheless, the overall input cost, in the current year, is likely to remain low for the cement players including BCL.

[1] Earnings before interest, tax, depreciation, and amortisation

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

Liquidity position: Strong

The liquidity position of the company is supported by its liquid investment portfolio of around Rs. 932 crore as on March 31, 2020. 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 favourable liquidity profile of other entities of the M.P. Birla Group provides additional comfort.

Rating sensitivities

Positive triggers – BCL's long-term rating can be upgraded if there is a sizeable improvement in its scale and cash accruals and consequently a significant improvement in debt protection metrics and return indicators on a sustained basis.

Negative triggers – Pressure on the rating may arise in case of a higher-than-expected demand slowdown or higher debt position, leading to a weakness in credit metrics with net-debt to OPBDITA of over 3.0 times on a sustained basis. Significant time and cost overrun in the completion of the ongoing capacity expansion as well as weakness in the liquidity position could also exert pressure on the rating.

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	The ratings are based on BCL's consolidated financial profile. As on March 31, 2020, 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. Following 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 acquired RCCPL Private Limited (RCCPL), which increased the Group's consolidated cement manufacturing capacity to 15.58 mtpa.

In FY2020, BCL reported a consolidated net profit of Rs. 505.18 crore on an operating income of Rs. 6,915.69 crore compared to a net profit of Rs. 255.70 crore on an operating income of Rs. 6,548.73 crore in the previous year.

Key financial indicators (audited)- Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	6548.73	6915.69
PAT (Rs. crore)	255.70	505.18
OPBDIT/OI (%)	14.78%	19.53%
PAT/OI (%)	3.90%	7.30%
Total Outside Liabilities/Tangible Net Worth (times)	1.80	1.79
Total Debt/OPBDIT-Net (times)	3.42	2.48
Interest Coverage (times)	2.61	3.48

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding (31.3.2020)	Rating	FY2020	FY2018	FY2018	FY2018	FY2017
					31-August-2020	31-May-2019	20-Feb-2018	30-Oct-2017	23-Aug-2017	11-Aug-2016
1	9.25% Non-Convertible Debenture	Long Term	200.00	200.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	9.25% Non-Convertible Debenture	Long Term	50.00	50.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	9.15% Non-Convertible Debenture	Long Term	150.00	150.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[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 1100
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@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

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