August 16, 2023

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/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
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

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% as of March 2023. It has an installed capacity of 132.4 million tonnes per annum (MTPA), including an overseas capacity of 5.4 MTPA as of March 2023. UCL has added capacities of 12.4 MTPA in FY2023 and the planned addition of 28.1 MTPA by FY2025, is 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 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 strong leverage and debt coverage metrics. It reported an increase in the operating income (OI) by 20% YoY to Rs. 63,240 crore in FY2023, backed by 12% growth in volumes and 7% improvement in net sales realisations. The OI is estimated to increase by 10-11% in FY2024. The net debt declined by 24% YoY to around ~Rs. 3,700 crore as of March 2023, which improved the leverage with net debt/OPBIDTA at 0.3 times as of March 2023 (P.Y: 0.4 times) and strong debt coverage metrics with interest cover at 12.9 times (PY: 12.3 times) and DSCR of 5.7 times (PY: 2.8 times) in FY2023. The volumes in FY2024 are expected to be supported by the demand from the housing and infrastructure sectors and the easing of input costs are likely to support the operating margins. While UCL has capex plans of around Rs. 7,000 crore in FY2024, these are likely to be largely met from internal cash flow generation, thus sustaining the leverage profile with net debt/OPBIDTA projected to remain below 0.5 times as of March 2024. 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. UCL's profitability remains susceptible to the fluctuations in input prices. The operating margins declined by 500 bps in FY2023 due to an increase in input costs (power and fuel, freight and raw material costs).

In April 2023, UCL's board of directors approved the scheme of amalgamation of UNCL and its wholly-owned subsidiaries with UCL. The amalgamation scheme is subject to statutory and regulatory approvals including approval from NCLT.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that UCL will continue to benefit from its market leadership position, robust brand and well-entrenched presence across multiple geographies, comfortable debt protection metrics, and strong financial flexibility by being a part of the Aditya Birla Group.

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 an installed capacity of 132.4 million tonnes per annum (MTPA), including an overseas capacity of 5.4 MTPA as of March 2023. With its capacities spread across the country, UCL's capacity market share is 22% as of March 2023. It has added capacities of 12.4 MTPA in FY2023. The planned addition of 28.1 MTPA by FY2025 is 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 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.

Strong financial profile despite cost headwinds – UCL's financial position remains strong, as depicted by its strong leverage and debt coverage metrics. It reported an increase in OI by 20% YoY to Rs. 63,240 crore in FY2023, backed by 12% increase in volumetric growth and 7% improvement in the net sales realisations. Its OI is expected to grow by 10-11% in FY2024. The net debt declined by 24% YoY to around ~Rs. 3,700 crore as of March 2023, which improved the leverage with net debt/OPBIDTA at 0.3 times as of March 2023 (P.Y:0.4 times) and strong debt coverage metrics with interest cover at 12.9 times (PY: 12.3 times) and DSCR of 5.7 times (PY:2.8 times) in FY2023. The ratings derive comfort from UCL's strong parentage (a part of the Aditya Birla Group), which lends considerable financial flexibility.

Leverage expected to remain strong despite capex plans – UCL has expansion plans of 28.1-MT cement capacity, which is scheduled to be completed by FY2025. In FY2023, a capacity of 12.4 MT was commissioned as scheduled, of which 5.6 MT and 3.1 MT was added in the eastern and central regions, respectively. Although the company has capex plans of around Rs. 7,000 crore in FY2024, these are likely to be largely met from internal cash flow generation, thus sustaining the leverage profile with net debt/OPBIDTA estimated to remain below 0.5 times as of March 2024.

Strong growth prospects – In FY2023, UCL witnessed a sales volume growth of 12% YoY to 105.7 MTPA and is expected to grow by 10-11% in FY2024, supported by the demand from the housing 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.

Susceptibility of profitability to fluctuations in input prices – UCL's profitability remains susceptible to fluctuations in input prices. The operating margins declined by 500 bps in FY2023 due to an increase in input costs (power and fuel, freight and raw material costs).

Liquidity position: Superior

UCL's liquidity position is superior, backed by strong balance of cash and liquid investments (~Rs. 7,400 crore as on March 31, 2023) and unutilised fund-based limits (~Rs. 1,700 crore as of April 2023). The long-term debt repayment obligations of Rs. 1,213 crore in FY2024 can be comfortably serviced by the estimated cash flow from operations. The total capex outlay including WHRS capacity expansion and maintenance capex is ~Rs. 7,000 crore in FY2024, which is expected to be largely funded by its internal accruals.

Rating sensitivities

Positive factors – NA

Negative factors – Significant decline in revenues and margins or a considerable debt-funded capex or acquisition, which will weaken the debt coverage metrics on a sustained basis, will be a negative. A specific credit metric that could lead to a downgrade include net debt to EBITDA of greater than 2.0 times on a consistent basis.

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	For arriving at the ratings 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 Annexure II.

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 132.4 million tonnes (including 5.4-MTPA capacity overseas). As of March 2023, UCL and its subsidiaries together have 24 integrated units, 29 grinding units, one white cement and three wall putty units, five jetties and eight bulk terminals across India and overseas. As on March 31, 2023, Grasim Industries Ltd ([ICRA]AAA(Stable)/[ICRA]A1+, the flagship company of the Aditya Birla Group) held a 57.3% equity stake in UCL.

Key financial indicators (audited)

UCL Consolidated	FY2022	FY2023
Operating income	52,598.8	63,240.0
PAT	7,332.6	50,69.4
OPBDIT/OI	22.0%	16.8%
PAT/OI	13.9%	8.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	1.0	1.0
Interest coverage (times)	12.3	12.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 16, 2023	July 15, 2022	May 28, 2021	April 27, 2020
1	Term loans	Long term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Fund-based Working capital facilities	Long term and short term	25.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
3	Non-fund based Working capital facilities	Long term and short term	125.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[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 and short term	-		-	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Working capital facilities	NA	NA	NA	25.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Non-fund based Working capital facilities	NA	NA	NA	125.00	[ICRA]AAA (Stable)/[ICRA]A1+

Source: Company

Annexure II: 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
Harish Cement Limited	100%	Full Consolidation
Gotan Limestone Khanij Udyog Private Limited	100%	Full Consolidation
Bhagwati Limestone Company Private Limited	100%	Full Consolidation
Ultra Tech Cement Middle East Investment Limited (UCMIL)	100%	Full Consolidation
Star Cement Co. LLC, Dubai, UAE	100%	Full Consolidation
Star Cement Co. LLC, RAK, UAE	100%	Full Consolidation
Al Nakhla Crusher Co. LLC, Fujairah, UAE	100%	Full Consolidation
Arabian Cement industry LLC, Abhu Dhabi	100%	Full Consolidation
Ultra tech Cement Bahrain Co. WLL, Bahrain	100%	Full Consolidation
Star Super Cement indutries LLC, UAE	100%	Full Consolidation
BC Tradelink Limited, Tanzania	100%	Full Consolidation
Binani Cement (Tanzania) Limited	100%	Full Consolidation
Binani Cement (Uganda) Limited	100%	Full Consolidation
Duqm Cement Project International LLC, Oman	70%	Full Consolidation
Ras Al Khaimah Co. for White Cement & Construction Materials P.S.C, U.A.E including Modern Block Factory Establshment and Ras Al Khaimah Lime Co. Noora LLC	30%	Equity method
Ultra Tech Cement Lanka (Private) Limited	80%	Full Consolidation
Swiss Merchandise Infrastructure Limited	100%	Full Consolidation
Merit Plaza Limited	100%	Full Consolidation
Bhumi Resources PTE LTD, Singapore	100%	Full Consolidation
PT Anggana Energy Resources, Indonesia	100%	Full Consolidation
Madanpur (North) Coal Company Private Limited (MCCPL)	11%	Equity method
Aditya Birla Renewables SPV I Limited	26%	Equity method
Aditya Birla Renewables Energy Limited	26%	Equity method
ABReL (Odisha) SPV Limited	26%	Equity method
ABReL (MP) Renewables Limited	26%	Equity method
ABReL Green Energy Limited	26%	Equity method
Bhaskarpura Coal Company Limited	47%	Equity method

Source: Annual report and quarterly results of UCL

Note: ICRA has taken a consolidated view of the parent (UCL), its subsidiaries, joint venture and associates while assigning the ratings

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About ICRA Limited:

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