April 27, 2020

UltraTech Nathdwara Cement Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	2,700.00	2,700.00	[ICRA]AAA(Stable); Reaffirmed
Long-term/Short-term Fund-based Working Capital Facilities	25.00	25.00	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Long-term/Short-term Non-fund Based Working Capital Facilities	125.00	125.00	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Long-term/Short-term Proposed Working Capital Facilities	150.00	150.00	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Total	**3,000.00**	**3,000.00**	

**Instrument details are provided in Annexure-1*

The removal of (CE) suffix and change from provisional to final (for proposed bank lines) is because of a change in ICRA's rating approach. In assigning the rating, ICRA has taken a consolidated view of UltraTech Cement Limited (UCL) and its subsidiaries, including UltraTech Nathdwara Cement Limited (UNCL). UNCL is a wholly-owned subsidiary of UCL and in essence it operates as its captive unit, with UCL being its sole customer. Thus, considering the strong operational and financial linkages between the entities, ICRA has taken a consolidated view of UCL and its subsidiaries to arrive at UNCL's rating.

Rationale

The rating reaffirmation takes into consideration UCL's established position in the Indian cement industry, wherein, it is a market leader across regions, except in the north. ICRA notes that UCL's pan-India presence reduces its dependence on a particular region, while its large scale of operations and market leading position result in healthy profitability levels, supported by pricing power and cost efficiencies arising out of economies of scale. ICRA notes UCL's expansion strategy through the inorganic route, whereby, it added considerable capacities (44.35 million tonnes per annum or MTPA) over FY2018 to FY2020, and its ability to consolidate its position by successfully integrating the acquired capacities by building in cost efficiencies, ramping up the utilisation levels and realising synergies. These front-loaded investments in the recent past had resulted in moderation of UCL's capitalisation and coverage metrics, as reflected by net gearing of 0.7 time and net debt/OPBDITA of 2.9 times as on March 31, 2019 compared to cash surplus position as on March 31, 2017. However, ICRA takes comfort from the company's market leading position and its ability to ramp up cash flows from the acquired capacities, which is expected to lead to an improvement in its debt metrics from March 31, 2019 levels, with net gearing and net debt/OPBITDA having improved to 0.5 times and 2.0 times, respectively as on December 31, 2019. The rating derives comfort from UCL's strong parentage as a part of the Aditya Birla Group, which lends considerable financial flexibility.

UCL's operations remain 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. When the incremental capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Nevertheless, on account of its pan-India presence, UCL's pricing or operational risks get reduced to a certain extent at the consolidated entity level. The Covid-19 induced lockdown is expected to have an impact on its performance in FY2021, primarily due to expected domestic demand compression. However, considering the fluidity of the current situation in the country on account of Covid-19, the extent of such impact remains to be seen.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that UCL will continue to benefit from its strong business profile, characterised by its established position in the Indian cement industry and strong parentage as a part of the Aditya Birla Group.

Key rating drivers and their description

Credit strengths

UCL's established position in Indian cement industry – UCL is the largest cement player in India with a domestic capacity of 113.35 MTPA, including the cement assets of Century Textile and Industries Limited (CTIL) acquired in FY2020. This translates to a capacity market share of ~23%. With its capacities spread across the country, UCL enjoys a leading market position (except in North India). While the Binani Cement Limited (BCL) acquisition (8.55 MTPA; of which 6.35 MTPA is in India and the balance overseas) strengthened the company's presence in the northern region, the recent acquisition of CTIL's cement assets (14.6 MTPA) increased its foothold in the eastern, western and central markets. Furthermore, besides its pan-India presence, which reduces dependence on a particular region, UCL enjoys considerable cost efficiencies on account of its captive power generation, which provides for ~85% of its power requirements.

Financial profile of UCL characterised by comfortable leverage and moderate coverage metrics – Despite the significant acquisitions during the last three fiscals, UCL's financial profile remained comfortable as reflected by net gearing of 0.5 time and net debt/OPBDITA of 2.0 times as on December 31, 2019 (net gearing of 0.7 time and net debt/OPBDITA of 2.9 times as on March 31, 2019[1]). These metrics witnessed some pressure since the cement asset acquisitions from Jaiprakash Associates Limited and Jaypee Cement Corporation Limited (the JP Group) in June 2017 and the BCL acquisition in November 2018. However, despite the acquisition of CTIL's cement assets in FY2020, which added ~Rs. 2,500-crore debt, the debt metrics have witnessed improvement from March 2019 levels, aided by healthy cash flows, which in turn were supported by improved realisation levels, benign input cost environment and successful turnaround of the acquired capacities. While UCL has been able to turnaround the acquisitions undertaken in the recent past, in terms of achieving healthy utilisation levels and improvement in profitability through cost efficiencies and realisation of brand premium, similar turnaround of the recently acquired cement assets of CTIL remains to be seen.

Besides the adequate cash and liquid investments of ~Rs. 6,000 crore as on March 31, 2020, UCL enjoys good access to capital markets and bank finance, and a considerable financial flexibility on being a part of the Aditya Birla Group.

[1] *Considering financials reported in UCL's FY2019 annual report*

Credit challenges

Vulnerability of revenues to cyclicality in economy; susceptibility of profitability to fluctuations in input prices – UCL and UNCL remain 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. When the incremental capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Nevertheless, on account of its pan-India presence UCL's pricing or operational risks get reduced to a certain extent at the consolidated entity level. Further, besides the power, fuel and logistics mix adopted by UCL, its profitability remains susceptible to fluctuations in the input prices. Nonetheless, the company's captive power sources, which suffice for ~85% of its requirements, lend efficiencies in power costs. Furthermore, the adverse impact of Covid-19, which began in March 2020, is likely to continue in Q1 FY2021. The Covid-19 induced lockdown is expected to impact the performance of the cement players in FY2021, including UCL. As per ICRA, for the overall cement industry, beyond the immediate near term, impact could be there on offtake due to domestic demand compression arising out of loss of income of prospective consumers.

Liquidity position: Superior

UCL's liquidity profile is **superior** backed by strong balance of cash and liquid investments of ~Rs. 6,000 crore as on March 31, 2020 and unutilised fund-based limits (~Rs. 960-crore fund-based limits with minimal utilisation over 12-month period that ended in November 2019). With no major debt-funded capex/acquisition plans, staggered debt repayments and strong cash flow from operations, UCL is expected to be able to fulfil its repayment obligations from its internal accruals. Furthermore, monetisation of non-core assets (acquired as a part of UNCL acquisition) is expected to further cushion UCL's liquidity position, when realised.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Longer-than-expected time taken for consolidating and ramping up the acquired cement assets of Century Textiles and Industries Limited and/or adverse impact on operations due to prolonged lockdown on account of Covid-19, resulting in pressure on debt metrics on a sustained basis, will be negative. Furthermore, inability to improve net debt/OPBDITA on a sustained basis in the medium term will be a negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Rating Methodology for Indian Cement Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating of UNCL, ICRA has taken a consolidated view of UCL and its subsidiaries, including UNCL, and thus, has considered the consolidated financials of UCL. List of entities forming part of UCL's consolidated financials is enlisted in Annexure-2.

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.

In 9M FY2020, on a consolidated basis, UNCL reported a net profit of Rs. 19.6 crore on an operating income (OI) of Rs. 1,017.5 crore.

About the guarantor

UCL, along with its subsidiaries, manufactures Ordinary Portland, Portland Pozzolana and white cement as well as ready-mix concrete. As on November 30, 2019, the company had 23 integrated units (IUs) and 22 grinding units (GUs) with an aggregate cement capacity of 113.4 MTPA in India. Besides India, the company operates across the UAE, Sri Lanka and Bahrain with an aggregate capacity of around 4.0 MTPA. As on March 31, 2020, Grasim Industries Limited (the flagship company of the Aditya Birla Group; rated [ICRA]AAA (Stable)/[ICRA]A1+) held a 57.3% equity stake in UCL.

In 9MFY2020, on a consolidated basis, UCL reported a net profit of Rs. 2,571.1 crore on an OI)of Rs. 31,379.2 crore compared to a net profit of Rs. 1,334.6 crore on an OI of Rs. 29, 238.2 crore (as per restated 9M FY2019 financials including CTIL's cement assets).

Key financial indicators (audited) – UCL Consolidated

	FY2018	**FY2019[2]**
Operating Income (Rs. crore)	30,978.6	37,379.2
PAT (Rs. crore)	2,224.6	2,431.1
OPBDIT/OI (%)	19.9%	18.2%
RoCE (%)	11.4%	10.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3
Total Debt/OPBDIT (times)	3.2	3.4
Interest Coverage (times)	5.0	4.4
DSCR	2.4	1.6

[2]*Considering financials reported in UCL's FY2019 annual report*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					27-Apr-2020	-	15-Mar-2019	-
1	Term Loan	Long-term	2,700.00	2,693.25	[ICRA]AAA(Stable)	-	[ICRA]AAA(SO)(Stable)	-
2	Fund-based Working Capital Facilities	Long-term/ Short-term	25.00	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	-	[ICRA]AAA(SO) (Stable)/ [ICRA]A1+(SO)	-
3	Non-fund Based Working Capital Facilities	Long-term/ Short-term	125.00	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	-	[ICRA]AAA(SO) (Stable)/ [ICRA]A1+(SO)	-
4	Proposed Working Capital Facilities	Long-term/ Short-term	150.00	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	-	Provisional [ICRA]AAA(SO) (Stable)/ [ICRA]A1+(SO)	-

*Amount in Rs. crore; *As on March 31, 2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Nov-2018	8.5%	Nov-2038	2,700.00	[ICRA]AAA(Stable)
NA	Fund-based Working Capital Facilities - CC/WCDL	NA	NA	NA	25.00	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Non-fund Based Working Capital Facilities - LC/BG	NA	NA	NA	125.00	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Proposed Working Capital Facilities	NA	NA	NA	150.0	[ICRA]AAA(Stable)/ [ICRA]A1+

Source: UltraTech Nathdwara Cement Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership#	Consolidation Approach
Dakshin Cements Limited	100.00%	Full consolidation
Harish Cement Limited	100.00%	Full consolidation
Gotan Limestone Khanij Udyog Private Limited	100.00%	Full consolidation
Bhagwati Lime Stone Company Private Limited	100.00%	Full consolidation
UltraTech Cement Middle East Investments Limited	100.00%	Full consolidation
Star Cement Company LLC, UAE*	100.00%	Full consolidation
Star Cement Company LLC, RAK, UAE*	100.00%	Full consolidation
Al Nakhla Crusher LLC, Fujairah, UAE*	100.00%	Full consolidation
Arabian Cement Industry LLC, Abu Dhabi*	100.00%	Full consolidation
UltraTech Cement Co., WLL, Bahrain*	100.00%	Full consolidation
Emirates Power Company Limited, Bangladesh*	100.00%^	Full consolidation
Emirates Cement Bangladesh Limited, Bangladesh*	100.00%^	Full consolidation
PT UltraTech Investments Indonesia	100.00%	Full consolidation
PT UltraTech Mining, Sumatera	100.00%	Full consolidation
PT UltraTech Cement, Indonesia	99.00%	Full consolidation
PT UltraTech Mining Indonesia	80.00%	Full consolidation
UltraTech Cement Lanka (Private) Limited	80.00%	Full consolidation
UltraTech Nathdwara Cement Limited (UNCL)	100.00%	Full consolidation
Krishna Holdings Pte Ltd.**	100.00%	Full consolidation
Murari Holdings Limited **	100.00%	Full consolidation
Mukundan Holdings Limited**	100.00%	Full consolidation
Swiss Merchandise Infrastructure Ltd.**	100.00%	Full consolidation
Merit Plaza Ltd.**	100.00%	Full consolidation
Bahar Ready Mix Concrete Limited (formerly known as Binani Ready Mix Concrete Limited)**	100.00%	Full Consolidation
Smooth Energy Private Limited (formerly known as Binani Energy	100.00%	Full consolidation

Company Name	Ownership#	Consolidation Approach
Private Limited)**		
Bhumi Resources (Singapore) PTE Limited**	100.00%	Full consolidation
PT Anggana Energy Resources**	100.00%	Full consolidation
Binani Cement (Uganda) Ltd**	100.00%	Full consolidation
Shandong Binani Rong'an Cement Company Limited, China**	92.50%	Full consolidation
Binani Cement Factory LLC**	100.00%	Full consolidation
BC Tradelink Limited**	100.00%	Full consolidation
Binani Cement Tanzania Ltd.**	100.00%	Full consolidation
Madanpur (North) Coal Company Private Limited	11.17%	Equity Method
Aditya Birla Renewable SPV 1 Limited	26.00%	Equity Method
Bhaskarpara Coal Company Limited	47.37%	Equity Method

*#Ownership of UCL in respective entities as on December 31, 2019; *subsidiaries of UltraTech Cement Middle East Investments Limited; **subsidiaries of UltraTech Nathdwara Cement Limited; ^ceased to be a subsidiary with effect from December 2, 2019*

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About ICRA Limited:

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