Birla Corporation Limited (Revised)

July 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	624.48 (Reduced from 700.04)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	883.00 (Enhanced from 733.00)	CARE AA/CARE A1+ (Double A/A One Plus)	Reaffirmed
Total bank facilities	**1,507.48 (₹ One thousand five hundred seven crore and forty-eight lakh only)**		
Non-convertible debentures	250.00 (Reduced from 400.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**250.00 (₹ Two hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

The reaffirmation of the ratings assigned to the bank facilities and instruments of Birla Corporation Limited (BCL) continues to draw strength from the company's long and established track record in the cement industry, its multi-region presence which relatively insulates BCL from the regional demand supply fluctuations, its strong brand recall and distribution network, majority sales from blended cement segment, operational efficiency along with availability of sizeable mineral reserve and captive power plants, cost optimisation offered by split units and proximity to various raw material sources, robust capacity utilisation coupled with comfortable financial risk profile and healthy liquidity.
The rating also factors into account the synergy benefits to the company being derived from ramp up of operations at RCCPL Private Limited (RCCPL, wholly-owned subsidiary of BCL) coupled with high efficiency of RCCPL's plants and its eligibility for various incentives which results in cost advantages making RCCPL earn better margins than BCL and making it strategically important for the group. The ratings also factor in the recent commissioning of greenfield cement plant at Mukutban in Maharashtra in April 2022, which will help BCL enhance its presence in the western region.
The ratings, however, continue to be constrained by volatility in the input and finished goods prices, BCL's leveraged capital structure and cyclicality of the cement industry which leads to variability in the profitability.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in net debt to profit before interest, lease rentals, depreciation and taxation (PBILDT) (net) of less than 2x on a sustained basis.
- Improvement in the capital structure (overall gearing less than 0.7x) and debt protection metrics (PBILDT interest coverage greater than 6x) on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- A lower-than-expected PBILDT generation and/or higher-than-expected net debt position resulting in the net leverage (net debt to networth) exceeding 1.25x on a sustained basis.
- Dip in cash and liquid investments below ₹300 crore at a consolidated level.
- Any further large-scale debt-ridden capex leading to deterioration in the capital structure.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Long and satisfactory track record in the cement industry and professional management along with support of the M.P Birla group: Operating successfully for a century, BCL, incorporated in August 1919, is the flagship company of the M. P. Birla group- a leading industrial group with other major companies being Hindustan Gum & Chemicals Ltd, Vindhya Telelinks Ltd, Universal Cables Ltd and RCCPL Private Limited. BCL has an aggregate capacity of 15.6 MTPA as on March 31, 2022 (10 MTPA in BCL and 5.6 MTPA in RCCPL). Furthermore, BCL commenced cement production at the 3.89 MTPA Mukutban plant in April 2022 and with this the overall capacity is increased and stood at around 20 MTPA. The company is managed under the leadership of H. V. Lodha, who is the son of late R. S. Lodha, and a Chartered Accountant with more than three decades of professional experience. The group as a whole has large, unencumbered investments and cash and bank balance.

Multi-region presence with strong distribution network and strong brand recall: BCL along with RCCPL has significant presence in the central (Madhya Pradesh), western (Maharashtra) and northern regions (Uttar Pradesh & Rajasthan) of the country with an aggregate installed capacity of around 20 MTPA as on May 30, 2022. BCL has multi-region presence which insulates it from the regional dynamics of any one region. They have a network of around 250 sales promoters and more than 9000 dealers and more than 24,000 sub-dealers (both BCL and RCCPL) for selling the cement to the end customers. In FY22

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

(refers to the period April 1 to March 31), approximately 79% of the company's sales were generated from Trade channels (80% in FY21) and around 21% from non-trade channels (20% in FY21). On a combined basis, the plants cover an average radius of approximately 320 kms. The group sells its products under well-established brands, viz, MP Birla Perfect Plus, MP Birla Samrat, MP Birla Samrat Advanced, MP Birla Chetak, MP Birla Unique, MP Birla Ultimate, MP Birla Ultimate Ultra, etc.

Majority sales from blended cement: The group manufactures both blended cement (PPC, PSC, PCC – 90% contribution of the overall sales in FY22) and OPC (Ordinary Portland Cement – 10% contribution of overall sales in FY22) in BCL and RCCPL. Furthermore, the company is looking to expand its premium brands like 'M.P Birla Perfect Plus', M.P Birla Unique Cement, M.P Birla Ultimate, M.P Birla Ultimate Ultra, M.P Birla Samrat advance', which commands premium prices. Recently the Company has launched super premium brand Rakshak. The group has been consistently increasing the share of premium brands in its total sales, from 32% in FY19 to 40% in FY20 and further to 50% in FY21 and 51% in FY22, in which the margins are better than other products of the company.

Operational efficiency with availability of sizeable mineral reserve and captive power plant and robust operating performance: On a consolidated basis, the capacity utilisation in FY22 was 92% compared with 85% in FY21. BCL has backward integration by way of captive limestone mines and captive power plants (CPPs, solar and WHRS). BCL has two operational captive limestone mines (Sagmania & Birhuli) at Satna, Madhya Pradesh & and operational captive limestone mines (Nagri mines Jai,and Surjana) at Chanderia, Rajasthan. The company sources around 82% of its limestone requirement from captive mines, which are mixed with high-grade limestone purchased from the market. The company has sizeable reserves of captive limestone mines. The company also has captive coal-based power plants (CPP) having aggregate capacity of 54 MW, WHRS plants having capacity of 22.50 MW and 11.50 MW solar plants at Satna, Chanderia and Raebareli (including 6-MW plant at Raebareli commissioned in Q4FY21) ensuring continuous supply of power at competitive rates meeting more than 55% of its power requirement in FY22 (as compared with 67% in FY21).
RCCPL has WHRS plant of 12.25-MW capacity and solar power of 21.70-MW capacity at Maihar and Kundaganj (including 14-MW solar power plant was commissioned in Q4FY21), which has met 27% of company's power requirement in FY22 (as compared with 22% in FY21), thereby bringing economies to power cost of the company. Further, 40-MW CPP will be generated after commissioning of the Mukutban plant in April 2022.
The power consumption of the company per tonne of cement stood at 78 kw/tonne in BCL and around 67 kw/tonne in RCCPL. The availability of the captive power plant for part power requirement reduces the dependence on the expensive source of power from the grid thereby optimising power and fuel cost.
Furthermore, RCCPL has a captive coal mine at Sial Ghogri, Madhya Pradesh, with an extractable reserve of 5.69 MMT providing cost benefit to the company for its fuel requirements. Also, BCL has been allotted two coal mines in Madhya Pradesh (Bikram and Brahmapuri blocks) in the auction conducted by Coal ministry in December 2019. The company is in the process of setting up the mines, which will be operational at full capacity from FY26 onwards.

Cost optimisation offered by split units of the project and proximity of the project to various raw material sources: BCL and RCCPL have the cement operating units spread across Madhya Pradesh, Uttar Pradesh, West Bengal, Maharashtra and Rajasthan. The entities are operating grinding facilities near the user markets to save upon the cost of logistics. The integrated plants at Satna and Chanderia enjoy very good central location to service markets as well as other grinding units. Major Clinker requirement for Raebareli and Durgapur are met from Satna, Chanderia and Maihar, whereas limestone requirements of individual plants are met out of a mix of captive limestone near the plants and purchases of high-grade limestone from open markets. Furthermore, apart from limestone which constitutes basic raw material, other raw materials are also located in close proximity to the project sites which in turn enables the entity to optimise its cost.
RCCPL has its operational units spread across Maihar in MP, Kundanganj (300 kms from Maihar) in UP and Butibori (461 kms from Maihar) in Maharashtra. Out of the three units, only the unit at Maihar is an integrated facility, whereas in other two places, the company is operating grinding facilities near the user markets to save upon the cost of logistics. Limestone requirements of the unit at Maihar are met through Sadhera and Salaiya mines which is around 10 kms from the site and clinker requirements of two grinding units are met from the Maihar site. The unit at Maihar is well equipped with railway sidings which provide smooth and cost-effective transportation.

Comfortable financial risk profile albeit leveraged capital structure: In FY22, BCL reported 10.16% growth in its total operating income (TOI) to ₹7,528.69 crore as against ₹6,834.38 crore in FY21 led by significant increase in the sales volume and realisations. BCL witnessed 42% growth in its jute segment where the TOI increased to ₹407.6 crore in FY22 from ₹287.34 crore in FY21. The earnings before interest and taxes (EBIT) margin from the segment also improved to 11%. However, the profitability was impacted due to sharp increase in the raw material prices. The PBILDT margin decreased to 15.66% in FY22 vis-à-vis 20.49% in FY21. Industry-wide there has been sharp increase in fuel, raw material, and packaging costs during the year owing to a significant increase in commodity prices. Due to an increase in fuel prices along with prices of pet coke and coal (both domestic and imported), total distribution cost in FY22 has also risen. Linkage coal from subsidiaries of Coal India Limited was also in short supply, forcing the company to buy coal from the open market at substantially higher prices. Though BCL managed to raise its full-year realisation from cement sales to ₹4,938 per ton, up 2.2% over ₹4,829 in the previous year, it was not enough to mitigate the cost pressure and the same is an industry-wide phenomena. The impact on the profitability is expected to continue even in FY23 due to prolonged and unabated cost pressures. Furthermore, the industry has not been able to take any sustained price hikes so as to be able to pass on the cost increase. CARE Ratings Limited (CARE Ratings), however, believes that various cost-saving initiatives taken by the company (such as waste heat recovery-based and solar power plants to replace high-cost grid power, increase in clinker capacity and coal extraction from captive mines) would aid profits.

Overall gearing (including acceptances) stood at 1.03x as on March 31, 2022 as against 1.05x as on March 31, 2021. The total debt (including LC acceptances & security deposits) has increased in FY22 to ₹4,932.10 crore on account of additional debt draw down for capex projects and increased short-term borrowings. Additional debt of ₹603 crore was drawn majorly in RCCPL of ₹441 crore due to the ongoing Mukutban capex project. However, net overall gearing stood at 0.81x as on March 31, 2022 (PY: 0.82x). Other debt indicators like interest coverage improved during FY22 to 4.86x (PY: 4.73x); however, the total debt to gross cash accruals (GCA) marginally declined due to reduced profitability to 5.74x in FY22 as against 4.75x in FY21. CARE Ratings expects the net leverage and net debt to PBILDT to improve in FY23 with the commencement of the Mukutban plant in FY23 and robust cash flow generation from the existing units.

RCCPL's eligibility for various incentives results in cost advantages: RCCPL's operating manufacturing units in MP and UP has been granted the status of Mega Projects and has been granted special incentives (MP incentive being last eligible up to July 2021). Incentive categories include Value-added Tax (VAT; now substituted with Goods and Service Tax [GST]) /Sales Tax and stamp duty exemption, capital investment subsidy amongst others. The incentives have the potential to recover the entire investment which can provide cost advantages in the future course of operations. In FY22, accrued subsidy benefit stood at around ₹150 crore, while the company received around ₹13 crore of subsidies. There were delays in receipt of the subsidies owing to the pandemic and expected to be normalised going ahead. As on March 31, 2022, subsidy receivable stood at around ₹500 crore. In addition to the above, for the upcoming unit at Mukutban, the expected GST subsidy span is of 20 years from FY23.
Going ahead, receipt of subsidy will further provide liquidity cushion and increase the cash flow from operations.

Key rating weaknesses

Volatility in input and finished goods prices: Limestone along with power and fuel cost are the major cost components for the cement industry. Furthermore, the industry being high power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet coke and crude oil. The surge in crude oil prices in FY22 has raised freight costs significantly, resulting in diesel prices doubling up. Elevated input costs, coupled with high freight and fuel expense, have aggravated the cost pressure, which in turn has impacted the profitability of cement companies.
For mitigating the effects of volatility in limestone prices, BCL and RCCPL have captive limestone mines meeting 90% requirement in RCCPL and 82% requirement of limestone in BCL. BCL also has captive sources of power generation in the form of CPPs, WHRS and solar power plant meeting more than 55% of its power requirements. RCCPL has also set up WHRS and solar power plants, which met around 27% of its power requirements in FY22 and providing power at much cheaper rates. Furthermore, the company meets its requirement of coal through a mix of purchases of indigenous coal and imported coal. The company has entered coal linkages with Coal India Limited for supply of coal from various mines for coal requirements in Satna and Chanderia which cushions the company from supply disruptions.
This apart, the freight cost also forms one of the major cost components which are co-related to crude prices, which in turn are directly linked with the overseas crude price variations. Hence, the company remains exposed to the risk arising out of the fluctuation in the prices of the crude in future. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials or the crude cost without a corresponding movement in the price of the cement can affect the profitability of the company.

Cyclicality of the cement industry: Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations and profitability.

Industry outlook: Growth in India's cement sector has seen a strong bounce back in FY22. The year closed with a growth of 20%, reaching an all-time high, after witnessing a decline of 11% in FY21. The jump was on account of the government's infrastructure push via various schemes and allocations towards the creation of hard assets and a low base effect. Growth trend continues in production FY21 created a low base primarily because of the COVID-19 pandemic. This, coupled with pent-up demand, has led to the reversal in the muted trend in volumes. The 20% production growth in FY22 was driven by the strong recovery witnessed during H1FY22, which saw a y-o-y growth of 36%. Owing to strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to see an upswing in demand in FY23. CARE Ratings believes the industry is likely to move at high single-digit growth on account of government thrust for infrastructure and strong traction in capital expenditure. Various initiatives by the government along with several micro, small & medium enterprises (MSME) schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure could create some stress on the profitability of cement companies. Resultant price hikes by cement producers will become evident and might sustain in the near term. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

Liquidity: Strong

The liquidity profile of BCL is strong marked by adequate cash accruals and high liquid investments/unencumbered cash and bank balance. On a consolidated level, liquid investment/unencumbered cash and bank balance stood at ₹1,215.51 crore as on March 31, 2022 (including equity investment of around ₹400 crore). Consolidated GCA stood at ₹858.95 crore in FY22- vis-à-vis debt repayment obligation of ₹414.98 crore in FY23 (including repayment of WCDL of ₹210 crore). BCL's average fund-based utilisation during last 12 months ending March 2022 has been around 28% and that of RCCPL stood at 10% thus, indicating sufficient liquidity cushion.

Analytical approach

Consolidated

For arriving at the ratings, CARE Ratings has considered the consolidated financials, as the subsidiary company, RCCPL, is engaged in similar line of operation under a common management and have strong financial and operational linkages with the parent.

Companies considered in consolidated financials:

Name of subsidiary company	% of Share Holding
RCCPL	100%
Birla Jute Supply Co. Ltd	100%
Talavadi Cements Ltd	98.01%
Lok Cements Ltd	100%
Budge Budge Floor Coverings Limited	100%
Birla (Cement) Assam Ltd	100%
M.P.Birla Group Services Pvt Ltd	100%

Applicable criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology – Manufacturing Companies
Rating Methodology – Cement Industry
Financial Ratios – Non-Financial Sector
Rating Methodology - Consolidation
Liquidity analysis of non-financial sector entities

About the company

Birla Corporation Limited (BCL), incorporated in August 1919, is currently the flagship company of the M. P. Birla group. The company is a multi-location cement manufacturing company with an aggregate capacity of 15.6 MTPA as on March 31, 2022 (10MTPA in BCL and 5.6 in RCCPL). Furthermore, BCL commenced cement production at the 3.89 MT Mukutban plant in April 2022 and with this the overall capacity is increased and stood at around 20 MTPA.

BCL sells cement under various well-established brands, prominent being 'Birla Cement Samrat', 'Birla Cement Unique',MP Birla Perfect, MP Birla Perfect Plus etc. and 'Birla Cement Chetak' with strong presence in central and north India. It is also engaged in Jute sales.

In August 2016, BCL successfully acquired 100% equity stake in RCCPL Private Limited (RCCPL) (erstwhile Reliance Cement Company Private Limited) at an enterprise value of ₹4,800 crore (including a debt of ₹2,400 crore) to expand its cement business. After the demise of Priyamvada Birla, wife of Madhav Prasad Birla, in July 2004, BCL was headed by Rajendra Singh Lodha. Following his death in October 2008, his son, Harsh Vardhan Lodha, took over the charge as the company's Chairman. However, the ownership of BCL is under legal dispute, being contested by Harsh Vardhan Lodha and the descendants of the Birla family. CARE Ratings will continue to monitor the developments in this regard.

Brief Financials (₹ crore)	FY20 (A)	FY21 (A)	FY22 (A)
TOI	6948.35	6834.38	7528.68
PBILDT	1379.82	1400.50	1178.91
PAT	505.18	630.14	398.59
Overall gearing (times)	1.26	1.05	1.03
Interest coverage (times)	3.56	4.73	4.86

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	883.00	CARE AA / CARE A1+
Fund-based - LT-Cash Credit		-	-	-	300.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	September 2028	324.48	CARE AA; Stable
Debentures-Non-convertible debentures	INE340A07084	August 18, 2016	9.25%	August 18, 2026	200.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE340A07092	August 18, 2016	9.25%	14 September 2026	50.00	CARE AA; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	883.00	CARE AA / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (20-Sep-19)
2	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE AA; Stable (20-Sep-19)
3	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (20-Sep-19)
4	Fund-based - LT-Cash credit	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (20-Sep-19)
5	Fund-based - ST-Bank overdraft	ST	-	-	-	1)Withdrawn (05-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (20-Sep-19)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)Withdrawn (05-Jul-21)	1)CARE AA; Stable / CARE A1+ (07-Jul-20)	1)CARE AA; Stable / CARE A1+ (20-Sep-19)
7	Debentures-Non-convertible debentures	-	-	-				
8	Fund-based - LT-Term loan	LT	324.48	CARE AA; Stable	-	1)CARE AA; Stable (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable

								(20-Sep-19)
9	Debentures-Non-convertible debentures	LT	250.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (20-Sep-19)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities:

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. DSCR	Not below 1.1x
II. FACR	Not below 1.25x
III. Total funded debt/TNW	Not to exceed 1.25x
B. Non-financial covenants	
I. Maintenance of books of accounts	The borrower shall maintain proper books of accounts to accurately reflect its financial condition
II. Material events	The borrower shall keep the Bank informed of the happening of any event which is likely to have an impact on their profit or business and the remedial steps proposed to be taken.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	Simple
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

To view t

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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