UltraTech Cement Limited

March 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	5,000.00	CARE AAA; Stable / CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of UltraTech Cement Limited (UltraTech) reflect its market leadership position in India supported by its large and well diversified cement capacities across all regions in India. UltraTech has the largest installed cement capacities in India, 121.35 million tonne per annum (MTPA) as on December 31, 2022, which is expected to reach 131.25 MTPA by FY23-end with the execution of the company's Phase – I capacity expansion plan. Furthermore, under Phase-II capacity expansion plan, the company's installed capacities are expected to rise to 153.85 MTPA within India by FY25-FY26 which is likely to aid its market position over the medium term.

The ratings assigned also draw comfort from UltraTech's sound operating efficiencies supported by highly-integrated operations with adequate limestone reserves in its captive mines and a captive coal block and a strong distribution network consisting of 30,000+ dealers, 64,000+ retailers and 2,900+ UltraTech Building Solutions (UBS) outlets. The company has highly-integrated operations with captive thermal power plants (TPP) of 1,188 MW, waste heat recovery system (WHRS) of 208 MW and renewable energy capacity (i.e. solar and wind energy) of 325 MW as well as captive limestone reserves. Furthermore, the presence of split grinding units (GUs) and bulk terminals have improved efficiencies to cater different markets in India.

Furthermore, the ratings assigned also factor UltraTech's robust financial profile which is characterized by its healthy capital structure and strong debt coverage indicators. The financial profile has been aided by its enhanced regional market share and ramp-up of the acquired assets in the past. The accretion to reserves over the years have kept the company's networth strong. Furthermore, the company has been deleveraging its balance sheet over the past few years leading to comfortable capital structure and strong debt coverage metrics. These strengths are partially offset by cyclicality in the cement industry and volatility in input costs.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: NA

Negative factors

- Significant debt-funded capital expenditure (capex) or acquisition plans which leads to deterioration in the net debt to EBITDA beyond 2x on sustained basis.

Analytical Approach: Consolidated

CARE Ratings Limited (CARE Ratings) takes a consolidated view of the parent (UltraTech) and its subsidiaries owing to significant business, operational and financial linkages between the parent and the subsidiaries. The details of the subsidiaries and associates which have been consolidated as on March 31, 2022 are given in Annexure - 6.

Outlook: Stable

The rating outlook "Stable" indicates the expected sustenance of its market leadership in the cement business and its strong credit metrics. The company is expected to continue growing its scale of operations supported by incremental cement capacities at a healthy operating profitability margin. With no major incremental debt expected, the company's credit metrics are expected to be sustained.

Key rating strengths

Market leader in Indian cement market supported by continuous capacity additions: UltraTech is the largest selling cement brand in India supported by its 121.35 MTPA in India as on December 31, 2022. Additionally, the company has 5.4 MTPA cement capacity overseas and is the third-largest by cement capacity globally (excluding China). These capacities are a mix of organic and inorgansic assets, with key acquired assets in the recent past being Jaiprakash Associates Limited – 21.2 MTPA, cement business of Century Textiles and Industries Ltd (Century) – 14.6 MTPA and Binani Cement Ltd (now known as UltraTech Nathdwara Cement Limited) - 6.25 MTPA.

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

To continue its dominance in the Indian cement market, the company has announced its Phase-II capacity expansion plans under which it is expected to add 22.6 MTPA by FY25-FY26. This follows Phase-I capacity expansion pf 19.9 MTPA which is estimated to take the company's cement capacity to 131.25 MTPA by FY23-end. A mix of greenfield and brownfield projects of integrated units (IU), split GUs and bulk terminals in Phase – II capacity expansion programme is expected to cost about ₹12,886 crore.

The company is also leading white cement/putty player in India with capacity of 1.5 MTPA. It has commissioned an additional 0.4 MTPA of greenfield wall care putty plant at Nathdwara, Rajasthan in Q3FY23.

The company's net sales have grown at compounded annual growth rate (CAGR) of 14.07% over the last five fiscal years through FY22 to ₹51,708 crore. The company's cement sales volume increased by 8.8% in FY22 year-on year (Y-o-Y) to 94 million tonnes while the blended realization improved by 7.4% Y-o-Y to ₹5,501 per tonne in the same period, leading to net sales growth of 16.88% in FY22 Y-o-Y. The company's revenue in 9MFY23 was ₹44,578 crore, growing 21.03% y-o-y. The company's cement sales are expected to continue to grow by 8%-9% in FY24 supported by healthy demand for cement due to the expected growth in infrastructure and real estate sectors.

Regionally diversified revenue streams supported by pan-India installed capacities: Cement, being a commoditized product, is significantly cost sensitive and freight/transportation cost is among the major costs. The location of the plant usually dictates the company's major target geographies. UltraTech's 23 Integrated Units (IUs) (22 in India and one overseas), 27 GUs (23 in India and four overseas), eight Bulk Packaging Terminals – Sea + Rail (seven in India and one overseas) as well as five Jetties has led to its pan-India presence. The company has presence in all the regions with highest in West (27.7 MTPA) and Central India (26.6 MTPA) and least in East (17.4 MTPA) and South India (20.5 MTPA) as on September 30, 2022 with no region contributing more than 25% in the total capacity share. The company has 23.8 MTPA capacity in North India as on September 30, 2022. The presence in South India, which has a structural overcapacity, is relatively lower. The company is undertaking capacity additions to maintain its market position in each geography under its Phase – I & II capacity expansion plans. Major capacities are coming up in East and Central India which in CAREEdge's view are high-growth regions and Ultratech is placed well to benefit from the same. South India and West India are expected to have limited capacity additions cumulatively in both the phases of expansion, with West India being the least.

Sound operating efficiencies supported by integrated operations: The company's large scale of operations is supported by its internal operating efficiencies allowing it to control costs and have a wide market reach. The company has established captive TPP of 1,188 MW, WHRS of 208 MW and renewable energy (i.e. solar and wind energy) of 325 MW. This makes the company self-sufficient for significant portion of its power requirements along with being cost effective. The company has captive limestone reserves to fully meet its requirements for the long term. Apart from this, the company has various split GUs which help it accessing wider market. The bulk terminals help the company service coastal demand. This has helped the company maintain healthy operating margins in the range of 20%-26% over the last three fiscal years through FY22, though moderation has been observed in FY23 on account of significant cost inflation particularly in power & fuels costs. Pent-up demand post opening up of the global economy and subsequently Russian-Ukraine war, led to sharp rise in power & fuel costs since Q3FY22. Yet, despite the cost inflation, the company's operating margin in 9MFY23 was around 17%. PBILDT per tonne[2] was ₹1,128 in FY22 which has moderated to ₹895 per tonne in 9MFY23. The ability to significantly increase cement prices is limited under the prevailing inflationary environment in the short term. Hence, the company would be focussing on improving its internal efficiencies along with support from slight moderation in prices of pet coke and coal.

Robust capital structure and strong debt coverage indicators: Net worth of the company stood strong at ₹38,715 crore as on March 31, 2022 as against ₹32,394 crore as on March 31, 2021. The company has also significantly deleveraged its balance sheet which can be observed from its overall gearing strengthening from 1.16x as on March 31, 2019 to 0.29x as on March 31, 2022. This was supported by healthy cash flow from operations over the last few fiscals, which reduced reliance on debt, both for capex and working capital requirements. The company has been undertaking significant capacity expansion over the last few years. It is under the process of executing its phase-I capacity expansion of 19.9 MTPA by the end of FY23. This was largely supported by its internal accruals. The company has, further, announced its Phase-2 cumulative capacity expansion of 22.6 MTPA to be executed by the mid of FY26. The phase-2 capacity expansion is estimated at ₹12,886 crore currently i.e. $76 per tonne. These are also expected to be funded by its internal accruals with no plans of raising debt. Hence, the company's overall capital structure is expected to remain robust over the medium term.
With comfortable debt position and healthy profitability, the company's debt coverage metrics also remained strong. The interest coverage ratio was 11.63x (7.62x) in FY22 (FY21) and net debt to PBILDT was 0.43x (0.68x) in FY22 (FY21). These metrics are expected to remain strong over the medium term.

[2] Other operating revenue has been deducted

Key rating weaknesses

Cyclicality of the cement industry

The 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.

Volatility in input costs: The company is exposed to commodity price risk arising out of fluctuation in prices of raw materials (gypsum, iron ore, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for both the power generation to run its plants and as fuel for kilns. Since Q3FY23, there has been tremendous increase in the energy cost. Initially it was on account of pent-up demand after the world started opening up post multiple COVID-19 waves and vaccinations. However, the costs exacerbated with start of Russia-Ukraine war. Though, the coal and pet coke prices have slightly moderated from its peak, the same remain highly elevated.

Industry outlook

According to CareEdge, the current upcycle in infrastructure and real estate is expected to significantly boost cement demand. CareEdge predicts growth in cement volume by 8-9% in FY23, reaching 380-385 million tonnes (MT), and by FY25-end, reaching 440-450 MT. The macros of the cement industry remain stable in the long term, driven by demand from the housing sector, upcoming infrastructure projects as well as generous rural demand. The capex spree by the government on infrastructure and housing spend in the wake of the 2024 general election paints an encouraging picture of cement demand. The private capex is also expected to pick up gradually lending further support on the demand front. The cement players have also responded enthusiastically by announcing huge capacity addition over FY23- FY25. With several companies looking to commission capacities in the next two years, the industry's pricing may come under some pressure.

In the current fiscal as well, the players are walking on a tightrope, and they have not been able to offset the higher input costs through hikes in cement prices. Though price hikes and absorption of the same are imminent for the sector's profitability, but so far players have not been able to take meaningful hikes. Hence, operating leverage driven by strong volume uptake and continuous focus of the players to improve cost efficiency are expected to aid margin in the medium term for the sector.

Liquidity: Strong

UltraTech's strong liquidity is supported by healthy cash & cash equivalents along with significant generation of gross cash accruals (GCA) and moderate bank limit utilization. The company had generated gross cash accrual of ₹10,027 crore in FY22. The company's repayment obligations in FY23 is around ₹750 crore, in FY24 around ₹1200 crore and around ₹.650-700 crore in FY25 which can be serviced by its internal accruals. Furthermore, the company has pending liability of ₹1,000 crore of preference share which is yet to be repaid as and when demand arises. However, against this repayment obligation, the company had healthy cash & cash equivalents. The company had cash & cash equivalents of ₹5,347 crore as on March 31, 2022 and ₹2,911 crore as on September 30, 2022 respectively. The cash & cash equivalents moderated on account of funding for capex. This apart, the company also has investments in mutual funds and other long-term bonds of ₹1,271 crore as on March 31, 2022. The company has significant cushion in its working capital limits for incremental working capital requirements if required and it has the capability to raise funds from the markets at competitive rates. UltraTech has robust capital structure which provides headroom for incremental debt if required.

ESG profile: The cement sector has a significant impact on the environment owing to higher emissions, waste generation and water consumption. This is because of energy intensive cement manufacturing process and its high dependence on natural resources, such as limestone, coal, etc. as key raw materials. The sector has social impact due to its nature of operations affecting local community and health hazards involved.

UltraTech has been focusing on energy management, emission reduction, raw material procurement and waste management to reduce its ecological footprint.

Environment:

- Target of 27% reduction in CO_2 emissions/tonne by 2032 compared to 2017. Against this, in FY22, the company reduced 9.1% of carbon emissions compared to 2017.
- 34% of the electricity is to be met through a combination of renewable energy and WHRS out of which 17.64% was met in FY22. The company, under RE100 commitment, is targeting to meet 100% of its power requirements through renewable energy by 2050.
- UltraTech has targeted to be 5 times water positive by 2024. In FY22, it turned 3.8 times water positive.
- The company has aimed to complete biodiversity assessment at all their sites by 2024. In FY22, UltraTech has completed baseline assessment as part of environmental impact assessment for all its units.

Social:

- The company's lost time injury frequency rate (LTIFR) of less than 0.25x was within target rate in FY22 with 0.19x LTIFR

- Over 5 lakh people benefitted from UltraTech's healthcare initiative. The mobile health camps reached out to 157,178 patients.

Governance:
- The boards of directors constitute 50% of independent directors of which two are women. 30% of the board of directors are women. The chairman and managing director are separate.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

UltraTech, an Aditya Birla group entity, was incorporated in August 2000. It however commenced its cement manufacturing operations since 2004 post acquisition of the L&T Cement Ltd (a 100% subsidiary of Larsen & Toubro Ltd) by Grasim Industries Ltd (GIL, rated CARE AAA; Stable/CARE A1+), the flagship company of the Aditya Birla group. UltraTech is the market leader in Indian cement industry with 121.35 MPTA grey cement capacity as on December 31, 2022 with pan-India presence. Additionally, the company has 5.4 MTPA of overseas capacity. UltraTech has 23 IUs (22 in India and one overseas), 27 GUs (23 in India and four overseas), eight Bulk Packaging Terminals – Sea + Rail (seven in India and one overseas) as well as five Jetties. The company has white cement/putty plants as well.

Brief Financials (₹ crore) – Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	44360	51895	44959
PBILDT	11184	10795	7679
PAT	5462	7334	3403
Overall gearing (times)	0.67	0.29	NA
Interest coverage (times)	7.62	11.63	12.16

A: Audited; UA: Un-Audited; NA: Not Available

Brief Financials (₹ crore) - Standalone	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	42818	49969	43694
PBILDT	10594	10242	7279
PAT	5342	7067	3267
Overall gearing (times)	0.49	0.25	NA
Interest coverage (times)	8.41	12.83	12.55

A: Audited; UA: Un-Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of the various instruments rated: Annexure-3

Lender details: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	-	2860.00	CARE AAA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	2140.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating history for the 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	Fund-based-LT/ST	LT/ST*	2860.00	CARE AAA; Stable / CARE A1+	-	-	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	2140.00	CARE AAA; Stable / CARE A1+	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-LT/ST	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please cli9ck here

Annexure-6: List of subsidiaries / joint ventures / associates of Ultratech which are consolidated

S No	Name of the entity	Country	Extent of Holding
	Subsidiary Companies		
1	Dakshin Cements Limited (struck off w.e.f. April 9, 2021	India	-
2	UltraTech Cement Lanka Private Limited (UCLPL)	Sri Lanka	80%
3	Harish Cement Limited	India	100%
4	PT UltraTech Mining Indonesia	Indonesia	80%[!]
5	PT UltraTech Investments Indonesia	Indonesia	100%[&]
6	UltraTech Cement Middle East Investments Limited (UCMEIL)	United Arab Emirates	100%
7	Star Cement Co. LLC, Dubai *	United Arab Emirates	100%[$]
8	Star Cement Co. LLC, Ras-Al-Khaimah*	United Arab Emirates	100%[$]
9	Al Nakhla Crusher LLC, Fujairah*	United Arab Emirates	100%[$]
10	Arabian Cement Industry LLC, Abu Dhabi*	United Arab Emirates	100%[$]
11	UltraTech Cement Bahrain Company WLL, Bahrain *	Bahrain	100%^
12	Bhagwati Limestone Company Private Limited (BLCPL)	India	100%
13	Gotan Limestone Khanij Udyog Private Limited	India	100%
14	PT UltraTech Cement Indonesia#	Indonesia	99%
15	PT UltraTech Mining Sumatera#	Indonesia	100%
16	UltraTech Nathdwara Cement Limited (UNCL)	India	100%
17	Smooth Energy Private Limited (struck off w.e.f. October 26, 2021)	India	
18	Bahar Ready Mix Concrete Limited (struck off w.e.f. November 2, 2021)	India	
19	Merit Plaza Limited	India[!!]	100%
20	Swiss Merchandise Infrastructure Limited	India[!!]	100%
21	Krishna Holdings PTE Limited (KHPL) (under liquidation)	Singapore[&&]	100%
22	Bhumi Resources PTE Limited (BHUMI)	Singapore[!!]	100%
23	Murari Holdings Limited (MUHL)	British Virgin Islands[!!]	100%
24	Mukundan Holdings Limited (MHL)	British Virgin Islands[!!]	100%
25	Star Super Cement Industries LLC (SSCILLC) $	United Arab Emirates[@@]	100%
26	Binani Cement (Tanzania) Limited	Tanzania[***]	100%
27	BC Tradelink Limited., Tanzania	Tanzania[***]	100%
28	Shandong Binani Rongan Cement Company Limited (SBRCC), China (Up to July 30, 2020) ^^	Republic of China	-
29	PT Anggana Energy resources (Anggana), Indonesia	Indonesia[^^^]	100%
30	Binani Cement (Uganda) Limited	Uganda[***]	100%
	Joint Operations		
31	Bhaskarpara Coal Company Limited (BCCL)	India	47.37%
	Associate		
32	Madanpur (North) Coal Company Private Limited (MNCCPL)	India	11.17%
33	Aditya Birla Renewable Energy Limited (w.e.f. April 13, 2020)	India	26.00%
34	Aditya Birla Renewable SPV 1 Limited	India	26.00%

[!] 4% Shareholding of UCMEIL

[&] 5% Shareholding of UCMEIL

* Subsidiaries of UCMEIL

[$] 51% held by nominee as required by local law for beneficial interest of the Company

^ 1 share held by employee as nominee for the beneficial interest of the Company

Subsidiary of PT UltraTech Investments Indonesia

[!!] Wholly owned subsidiary of UNCL

[&&] 55.54% held by UNCL and 44.46% held by MHL

[***] Wholly owned subsidiary of SSCILLC

[^^] Subsidiary of KHPL

[^^^] Wholly owned subsidiary of BHUMI

[@@] Earlier 51% held by MHL through nominee as required by local law for beneficial interest of the Company and 49% held by MUHL; Subsidiary of UCMEIL w.e.f. November 23, 2020

[****] With effect from March 12, 2021

[##] Wholly owned subsidiary of 3B Binani Glassfibre Sarl

[###] Wholly owned subsidiary of Project Bird Holding II Sarl which was merged with 3B w.e.f. April 12, 2021

!!! 67% held by Project Bird Holding II Sarl which was merged with 3B w.e.f. April 12, 2021

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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