Utkal Alumina International Limited

February 11, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	3,924.00 (Enhanced from 2,424.00)	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	437.00 (Reduced from 650.00)	CARE AA+; Negative / CARE A1+ (Double A Plus ; Outlook: Negative/ A One Plus)	Reaffirmed
Total Bank Facilities	**4,361.00 (Rs. Four Thousand Three Hundred Sixty-One Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Utkal Alumina International Limited (UAIL) takes into consideration comfortable capital structure owing to prepayment of long term debt and strong cash-flow generating ability of the company.

The ratings continue to derive strength from promoters' long standing experience in aluminium industry, business integration within overall expansion plans of Hindalco, presence of an assured off-take agreement with Hindalco for the entire production of alumina as well as availability of captive source of raw material viz. bauxite.

The rating strengths are however tempered by susceptibility of profitability to volatile metal prices and raw material prices such as caustic soda, coal, coal tar pitch etc.

Rating Sensitivities

Positive Factors

- Improvement in credit risk profile of parent, Hindalco Industries Limited

Negative Factors

- Any deterioration in credit risk profile of parent, Hindalco Industries Limited.
- Increase in overall gearing above 0.50x owing to any sizeable debt funded capital expenditure

Outlook: Negative

The negative outlook is in-line with the rating outlook of parent, Hindalco industries Limited (HIL; Rated CARE AA+; Negative/CARE A1+) with whom UAIL has significant operational linkages.

The negative outlook of HIL reflects CARE's belief that the operating profits are likely to remain subdued in the short to medium term period on the back of an expectation of a lower demand for commodities, which is likely to impact sales volumes and net sales realizations for HIL. Furthermore, CARE also factors in the increase in debt levels owing to debt funded acquisition of Aleris Corporation, which will result into elevated leverage ratios for HIL in near future. Outlook may be revised to Stable in case of timely recovery in demand leading to improvement in the operating performance of the company and improvement in overall gearing due to significant repayment of debt.

Detailed description of the key rating drivers

Key Rating Strengths

Reputed promoter group; professionally qualified management

UAIL is a 100% subsidiary of Hindalco - the flagship metals company of the Aditya Birla Group. By virtue of being part of the Group, the company receives continuous support from the holding company in the form of regular equity infusion and in project management. The company is led by professional and experienced management that has built a successful track record in the industry.

Backward integration - captive source of raw material

UAIL requires about 5 mtpa of bauxite annually. UAIL has obtained the mining lease for the Baphlimali bauxite mines from OMCL (Odisha Mining Corporation Limited). The estimated reserves of the mines are expected to be sufficient to feed the existing capacity of 1.5 mtpa alumina refinery for more than two decades. Majority of the raw material is transported through conveyor belt from bauxite mines to UAIL plant, resulting into logistics related cost savings and convenience as against transportation through traditional modes. The ratings derive strength from complete backward integration, ensuring a low cost and assured supply of raw material for UAIL.

UAIL has undertaken brownfield capacity expansion of 500 KT for a total cost of Rs. 1,600 crore, which is funded by debt of Rs 1,500 crore and the balance by internal accruals. This will increase the alumina refining capacity of UAIL from 1.5 mn TPA to 2 mn TPA and it is expected to be commissioned by the end of Q1FY22. The incremental production will replace requirement of alumina for HIL from other alumina refinery resulting in cost reduction.

Business integration with Hindalco's overall expansion plans
Hindalco has successfully ramped up two greenfield smelter plants, Mahan Aluminium smelter (at Bhargwan, MP) and Aditya Aluminium (at Rayagada, Odisha), with a capacity of 360 ktpa each. UAIL's alumina refinery is providing alumina to the above smelters. The company has entered into an agreement with Hindalco for the same, indicating stable revenue and visible cash flows for UAIL and corresponding savings on the selling and marketing costs. The entire output of UAIL would be utilized captively for the aluminium smelters of Hindalco.

Comfortable financial risk profile
Total debt as on March 31, 2020 stood at Rs 2,424 crore with overall gearing of 0.33x. Though total debt of UAIL mainly consists of term loans and meager portion of working capital borrowings, UAIL has prepaid these term loans till Jun-25. UAIL has comfortable position for debt servicing of these loans with strong cash generation capacity of the company. As majority of expansion capex is over, the financial risk profile of UAIL is expected to remain comfortable in near term.

Key Rating Weaknesses
Operating performance susceptible to volatility in LME Alumina prices
Global aluminium prices (London Metal Exchange - LME), continue to remain highly volatile on the back of geopolitical events and the state of the global economy. Global alumina prices are indirectly derived from its strong linkages to the LME aluminium traded price. Furthermore, on the raw material front, alumina manufacturing requires significant power usage and hence volatility in power cost (owing to coal prices) also has a significant bearing on the cost of production, thereby the profitability of alumina producers.

Industry Outlook
Domestic demand for aluminium comes from largely from the power transmission, automobiles & construction sectors and industries like beverage, food packaging and pharma. Slowdown in manufacturing activities due to lockdowns across various countries resulted in sharp decline in aluminium prices during March-20. However, within a quarter the prices recovered to pre COVID-19 levels expecting the recovery in the demand from automobile industry. Going forward, global aluminium prices will depend upon the extent of recovery of the global economy and in-turn demand for the aluminium from major sectors like construction and automobiles.

Liquidity: Strong
Liquidity is marked by strong accruals against no fixed repayment obligations in near term due to prepayment of term loans. UAIL holds cash and liquid investments to the tune of Rs.1,573 crore as on March 31, 2020. With a gearing of 0.33 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for any capex if required. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Liquidity of UAIL is also supported by strong financial flexibility in terms of raising funds from financial institutions as it is part of Aditya Birla Group.

Analytical approach: Standalone
CARE has adopted a standalone approach. However, strong operational linkages with its parent HIL (Hindalco Industries Ltd) have been considered factoring in the economic and strategic importance of the operations of UAIL for HIL.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Short Term Instruments
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Rating Methodology –NON-FERROUS METALS
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

About the Company

UAIL, a wholly-owned subsidiary of Hindalco was incorporated in 1993. Hindalco (rated 'CARE AA+; Negative/CARE A1+'), the flagship metals company of the Aditya Birla group, is one of the largest aluminium manufacturer in India. UAIL is strategically important for Hindalco, as the former provides backward integration. UAIL has implemented a fully integrated 1.5 mntpa alumina refinery project in Rayagada, Odisha. Presently, the plant is operating at its designed capacity. Further, UAIL has a firm off-take arrangement with Hindalco for the alumina produced. Alumina manufactured at this plant is sold to Hindalco for its projects - Mahan Aluminium smelter and Aditya Aluminium smelter located in Madhya Pradesh (MP) and Odisha respectively.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4,140.92	2,744.75
PBILDT	2306.11	927.96
PAT	1425.10	317.41
Overall gearing (times)	0.35	0.33
Interest coverage (times)	8.31	5.06

A: Audited; Financials have been reclassified as per CARE standards

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 instrument / facility: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	437.00	CARE AA+; Negative / CARE A1+
Fund-based - LT-Term Loan	-	-	September 2030	3924.00	CARE AA+; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	437.00	CARE AA+; Negative / CARE A1+	1)CARE AA+; Negative / CARE A1+ (08-Jan-21) 2)CARE AA+; Negative / CARE A1+ (11-Jun-20)	1)CARE AA+; Stable / CARE A1+ (23-Oct-19)	1)CARE AA+; Stable / CARE A1+ (06-Jul-18)	1)CARE AA; Stable / CARE A1+ (26-Sep-17)
2.	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	-	1)Withdrawn; Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (26-Sep-17)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (08-Jan-21) 2)CARE A1+ (11-Jun-20)	1)CARE A1+ (23-Oct-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (11-Jul-17)
4.	Fund-based - LT-Term Loan	LT	3924.00	CARE AA+; Negative	1)CARE AA+; Negative (08-Jan-21) 2)CARE AA+; Negative (11-Jun-20)	1)CARE AA+; Stable (23-Oct-19)	1)CARE AA+; Stable (06-Jul-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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