

Ultratech Cement Limited

December 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	8,000.00 (Enhanced from 7,000.00)	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings to the bank facilities of UltraTech Cement Limited (UltraTech) continue to reflect its sustained 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, 133 million tonne per annum (MTPA) as on November 30, 2023 and consequently concluding its Phase-I capacity expansion target. Furthermore, under the ongoing capacity expansion plan, the company's installed capacities are expected to rise to 160.24 MTPA within India by FY25-FY26 which is likely to further aid its market position over the medium term. It is to be noted that the company has also announced the likely acquisition of cement division of Kesoram Industries Limited (KIL) in a share swap deal, the enterprise value of which may range between ₹7,200-7,500 crore on the basis of fixing of record date. The deal consists of acquiring 10.75 MTPA cement capacity out of which 8.50 MTPA backed by clinker which may value the deal at around ₹6,800-₹7000 per ton of installed cement capacity, however since 2.25 MTPA is surplus grinding capacity without clinker back up, the value of the deal increases proportionally. Furthermore, the company announced its third phase of capacity expansion of 21.9 MTPA costing about ₹13,000 crore taking the current planned expansion to 192.89 MTPA in India and 198.29 MTPA overall (including overseas capacity).

The ratings 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, 89,000+ retailers and 3,450+ 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 262 MW and renewable energy capacity (i.e. solar and wind energy) of 429 MW as well as captive limestone reserves. Furthermore, the presence of split grinding units (GUs) and bulk terminals have improved efficiencies to cater to different markets in India.

Furthermore, the ratings 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 cyclicity 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, 2023 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 continue to remain strong.

Detailed description of the key rating drivers:

Key strengths

Market leader in Indian cement market supported by continuous capacity additions: UltraTech is the largest selling cement brand in India supported by its 133 MTPA in India as on November 30, 2023. 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 inorganic assets, with key acquired assets in the recent past being Jaiprakash Associates Limited – 21.2 MTPA,

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

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.

To continue its dominance in the Indian cement market, the company has announced its Phase-III capacity expansion plans under which it is expected to add 21.9 MTPA by FY27. This follows completed Phase-I and ongoing Phase-II capacity expansion of 19.9 MTPA and 22.6 MTPA respectively. 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. Additionally, the company has acquired cement grinding assets of Burnpur Cement Limited of 0.54 MTPA in November 2023 and has announced likely acquisition of KIL's cement capacity 10.75 MTPA cement capacity.

The company is also leading white cement/putty player in India with capacity of 1.98 MTPA, with one unit of white cement and three units of wall care production facilities.

The company's net sales have grown at compounded annual growth rate (CAGR) of 11% over the last five fiscal years through FY23 to ₹62,338 crore. The company's cement sales volume increased by 12.35% in FY23 year-on year (Y-o-Y) to 105.6 million tonnes while the blended realization improved by 7.3% Y-o-Y to ₹5,903 per tonne in the same period, leading to net sales growth of 21% in FY23 on Y-o-Y basis. The company's revenue in H1FY24 was ₹33,749 crore, growing 16% y-o-y. The company's cement sales are expected to continue to grow by at least 12%-14% in FY24 supported by healthy demand for cement due to the expected growth in infrastructure and real estate sectors along with incremental sales from new capacities.

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 has 24 Integrated Units (23 in India and one overseas), 29 Grinding Units (25 in India and four overseas), eight Bulk Packaging Terminals – Sea + Rail (seven in India and 1 overseas), one white cement & three Putty Unit as well as five Jetties across India, UAE, Bahrain, and Sri Lanka. The company has presence in all the regions with highest in West (30.7 MTPA), Central India (28.4 MTPA), East (26.4 MTPA), North (26.5 MTPA) and least in South India (20.5 MTPA) as on September 30, 2023 with no region contributing more than 25% in the total capacity share. The presence in South India, which has a structural overcapacity, is relatively lower, but is expected to increase with the expected acquisition of KIL's cement plants. The company is undertaking capacity additions to maintain its market position in each geography under its Phase –II & III capacity expansion plans. Major capacities are coming up in East and South India, considering phase – II & III expansion plant followed by northern, central and Western India.

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 262 MW and renewable energy (i.e. solar and wind energy) of 429 MW as at Q2FY24-end. This makes the company self-sufficient for significant portion of its power requirements along with being cost effective. Furthermore, the company has also been benefitted from increasing its low-cost green power mix to 25% in FY23 rising from 10% in FY20. The company is targeting to increase green power mix to 85% by 2030 with interim target being 60% by FY26. The company also 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 21%-26% over the last three fiscal years through FY22, though moderation has been observed in FY23 to 16.56% 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. The profit before interest, lease rentals, depreciation and tax (PBILDT) per tonne² was ₹1,207 in FY22 and moderated to ₹989 per tonne in FY23. The ability to significantly increase cement prices is limited under the prevailing inflationary environment in the short term amidst significant competitive intensity. However, the company is expected to cross PBILDT per tonne of at least ₹1,000 in FY24 largely driven by softening of power & fuel cost along with various initiatives being undertaken such as targeting increased share of alternative fuel usage, adding more low-cost green power capacity, etc.

Robust capital structure and strong debt coverage indicators: The net worth of the company stood at ₹42,472 crore as on March 31, 2023 as against ₹38,715 crore as on March 31, 2022. Continuous robust accretion in reserves on account of substantial scale of operations and above average operating margins, led to robust networth. The company has significantly deleveraged which can be observed from its overall gearing strengthening from 1.24x as on March 31, 2019 to 0.34x as on March 31, 2022 which further improved to 0.31x as on March 31, 2023. This was supported by healthy cash flow from operations over the last few fiscals, which reduced reliance on debt.

The company has been undertaking significant capacity expansion over the last few years. It has completed its phase-I capacity expansion of 19.9 MTPA by the end of July 2023. This was largely supported by its cash flow from operations (CFO). During FY23, the company has announced its Phase-2 cumulative capacity expansion of 22.6 MTPA by the mid of FY26. The phase-2 capacity expansion is estimated at ₹12,886 crore currently. In Q3FY24, the company announced, its Phase-III capacity expansion of 21.9 MTPA. This is expected to be funded by its CFO with no major new long-term debt. However, once the acquisition of KIL is completed, the company would add KIL's net debt which may turn out to be around ₹1700-2000 crore. Despite this, the company's overall capital structure is expected to remain robust over the medium term.

² Other operating revenue has been deducted

With comfortable debt position and healthy profitability, the company's debt coverage metrics also remained strong. The interest coverage ratio was 12.69x (12.01x) in FY23 (FY22) and net debt to PBILD was 0.55x (0.59x) in FY23 (FY22). These metrics are expected to remain strong over the medium term.

Industry outlook: According to CARE Ratings, the current upcycle in infrastructure and real estate is expected to significantly boost cement demand. CARE Ratings predicts growth in cement volume by 9-10% in FY24, reaching 410-415 million tonnes (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. The robust capacity addition plans by players for FY23- FY25 in anticipation of demand growth and market share gains are expected to keep the industry's capacity utilization (grinding) under check, and they are unlikely to improve beyond 67-69% at the pan-India level despite a better demand outlook. CARE Ratings does not estimate any significant price hike-led realization growth coming through for the players that they were scouting for in the last fiscal. Few players will register growth in net realization which will be supported by a change in their product mix as was the case in FY23 as well.

The operating profitability improvement in FY24 will majorly be on account of cooling off in the input costs as significant improvement in the cement prices still looks beyond the horizon due to intensifying competition to gain market share and run for the capacity additions amongst players. However, any rebound in fuel prices remains a key monitorable.

Key weaknesses

Cyclical nature 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, 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 Q3FY22, 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. The pet coke and coal prices now have significantly reduced from its FY23 peak, however, the same may move up again considering various global economic factors.

Liquidity: Superior

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 ₹8,233 crore in FY23. The company's repayment obligations in FY24 is around ₹1,213 crore and around ₹700 crore in FY25 which can be serviced by its internal accruals. The company had cash & cash equivalents (including liquid investments) of ₹6,972 crore as on March 31, 2023 and ₹3,974 crore as on September 30, 2023. This apart, the company also has investments in mutual funds and other long-term bonds of ₹443 crore as on March 31, 2023. 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.

Environment, social, and governance (ESG) risks: 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 net specific Scope 1 emissions i.e. CO₂ emissions/tonne by 2032 compared to 2017. Against this, in FY22, the company reduced 12% of net CO₂ emissions compared to 2017.
- Substitution of 34% electricity by renewable energy and WHRS in FY24 out of which 19.27% electricity was substituted in FY23 through green energy. The company is targeting to increase green power mix to 85% by 2030 with interim target being 60% by FY26. UltraTech targets to meet 100% of its electricity requirement through renewables sources by 2050, as part of its RE100 commitment.
- UltraTech has targeted to be 5 times water positive by 2024. In FY23, it turned 4.17 times water positive.
- The company has aimed to complete biodiversity assessment at all their sites by 2024.

Social:

- The company's lost time injury frequency rate (LTIFR) target is less than 0.25x. It was within target rate in FY23 with 0.10x LTIFR.

- Over 5 lakh people benefitted from UltraTech's healthcare initiative. The mobile health camps reached out to 154,312 patients, 60% of which are women.

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 133 MPTA grey cement capacity as on November 30, 2023 with pan-India presence. Additionally, the company has 5.4 MTPA of overseas capacity. UltraTech has 24 Integrated Units (23 in India and one overseas), 29 Grinding Units (25 in India and four overseas), 8 Bulk Packaging Terminals – Sea + Rail (seven in India and one overseas), one white cement & three Putty Unit as well as five Jetties across India, UAE, Bahrain, and Sri Lanka.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	52426	63064	33749 [#]
PBILDT	11342	10444	5600
PAT	7334	5073	2971
Overall gearing (times)*	0.34	0.31	0.26
Interest coverage (times)	12.01	12.69	12.59

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

[#]Bifurcation of other operating income and non-operating income of standalone financials not available. Hence, other income has been considered as non-operating income.

*Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits

Brief Financials (₹ crore) - Standalone	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	50499	61157	32762 [#]
PBILDT	10772	9762	5259
PAT	7067	4917	2911
Overall gearing (times)	0.30	0.25	0.21
Interest coverage (times)	13.49	12.93	13.11

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

[#]Bifurcation of other operating income and non-operating income of standalone financials not available. Hence, other income has been considered as non-operating income.

*Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	5140.00	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 2023-2024	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
1	Fund-based-LT/ST	LT/ST*	2860.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (21-Aug-23)	1)CARE AAA; Stable / CARE A1+ (10-Mar-23)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	5140.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (21-Aug-23)	1)CARE AAA; Stable / CARE A1+ (10-Mar-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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 [click 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.	UltraTech Cement Lanka Private Limited (UCLPL)	Sri Lanka	80%
2.	Harish Cement Limited	India	100%
3.	Bhagwati Limestone Company Private Limited (BLCPL)	India	100%
4.	Gotan Limestone Khanij Udyog Private Limited	India	100%
5.	UltraTech Cement Middle East Investments Limited (UCMEIL)	United Arab Emirates	100%
6.	Star Cement Co. LLC, Dubai*	United Arab Emirates	100% ^{\$}
7.	Star Cement Co. LLC, Ras-Al-Khaimah*	United Arab Emirates	100% ^{\$}
8.	Al Nakhla Crusher LLC, Fujairah*	United Arab Emirates	100% ^{\$}
9.	Arabian Cement Industry LLC, Abu Dhabi*	United Arab Emirates	100% ^{\$}
10.	UltraTech Cement Bahrain Company WLL, Bahrain *	Bahrain	100% [^]
11.	Star Super Cement Industries LLC (SSCILLC) *	United Arab Emirates	100% ^{\$\$}
12.	Binani Cement Tanzania Limited***	Tanzania	100%
13.	BC Tradelink Limited., Tanzania***	Tanzania	100%
14.	Binani Cement (Uganda) Limited ***	Uganda	100%
15.	Duqm Cement project International, LLC, Oman * (w.e.f January 29, 2023)	Oman	70%
16.	Duqm Cement project International, LLC, Oman * (w.e.f January 29, 2023)	Oman	70%
17.	UltraTech Nathdwara Cement Limited (UNCL)	India	100%
18.	Merit Plaza Limited !!	India	100%
19.	Swiss Merchandise Infrastructure Limited !!	India	100%
20.	Bhumi Resources PTE Limited (BHUMI) !!	Singapore	100%
21.	PT Anggana Energy Resources, Indonesia ^^^	Indonesia	100%
Joint Operations			
22.	Bhaskarpara Coal Company Limited (BCCL)	India	47.37%
Associate			
23.	Madanpur (North) Coal Company Private Limited (MNCCPL)	India	11.17%
24.	Aditya Birla Renewable Energy Limited	India	26.00%
25.	Aditya Birla Renewable SPV 1 Limited	India	26.00%
26.	ABReL (MP) Renewables Limited (w.e.f June 16, 2022)	India	26.00%
27.	ABReL Green Energy Limited (w.e.f June 22, 2022)	India	26.00%
28.	ABReL (Odisha) SPV Limited (w.e.f June 15, 2022)	India	26.00%
29.	Ras Al Khaimah Co. for White Cement & Construction Materials P.S.C U.A.E (RAKW) (w.e.f April 15, 2022)\$\$\$	United Arab Emirates	29.79%
30.	Modern Block Factory Establishment (w.e.f April 15, 2022) @	United Arab Emirates	100.00%
31.	Ras Al Khaimah Lime Co, Noora LLC (w.e.f April 15, 2022) @	United Arab Emirates	100.00%

* Subsidiaries of UCMEIL

^{\$} 51% held by nominee as required by local law for beneficial interest of the Company upto July 20, 2022

^{\$\$} 51% held by nominee as required by local law for beneficial interest of the Company

!! Wholly owned subsidiary of UNCL

*** Wholly owned subsidiary of SSCILLC

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

^{^^^} Wholly owned subsidiary of BHUMI

^{\$\$\$} Associate of UCMEIL

@ Wholly owned subsidiary of RAKW

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.

Contact us

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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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