Birla Corporation Limited (Revised)

June 4, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	627.66 (Reduced from 671.48)	CARE AA; Stable	Reaffirmed; Outlook revised from Negative
Long-term / short-term bank facilities	793.00	CARE AA; Stable / CARE A1+	Reaffirmed; Outlook revised from Negative
Non-convertible debentures	50.00	CARE AA; Stable	Reaffirmed; Outlook revised from Negative
Non-convertible debentures	200.00	CARE AA; Stable	Reaffirmed; Outlook revised from Negative

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings to bank loan facilities and instruments of Birla Corporation Limited (BCL), while the outlook has been revised to 'Stable' from 'Negative'.

The rating assessment continues to consider BCL's healthy competitive position in grey cement manufacturing, supported by installed capacities of 20 MTPA majorly spread across Central, Northern, Western and Eastern Regions of India. Its strong market position is augmented by the company's significant penetration in Central, followed by Eastern and Northern India regions. The company has established a healthy brand recall of its cement products, which is supported on ground by its distribution network leading to higher retail trade mix. Cost competitiveness is driven by the presence of captive limestone mines, coal block mines, and power generation with a mix of thermal and green power. Additionally, high proportion of blended cement reduces its fuel requirements.

These strengths are partially tempered by moderate operating efficiencies driven by high fuel requirements in BCL (Standalone) as one of its plant is a very old cement manufacturing unit. However, efficient units under its subsidiary, RCCPL Private Limited (RCCPL), support profitability margins at a consolidated level. The company's moderate operating profitability is exposed to volatile input cost and cement price realisation. With improvement in profitability and moderation in debt in FY24 (refers to April 01 to March 31), the company's debt coverage metrics strengthened, however, remains moderate and sensitive to future debt programme.

The revision in outlook from 'Negative' to 'Stable' is largely driven by reversion of debt coverage metrics to historical levels and expected sustenance of the same. Net debt to profit before interest, lease rentals, depreciation, and taxation ([ND/PBILDT] inclusive of Security Deposits (SD) and LC acceptances (LC)) was 2.62x in FY24, strengthening significantly from 5.55x in FY23 and meaningfully below the negative sensitivity trigger of 3.5x. The company witnessed significant improvement in operating profitability in FY24, supported by softened power & fuel costs and improvement in operational efficiency of Mukutban plant (Maharashtra) as it ramped up production and improved utilization of Waste Heat Recovery system leading to lower cost of power per tonne for the Mukutban plant. The company restricted its capital expenditure (capex), which along with, improvement in internal accruals led to debt reduction in FY24. Currently, CARE Ratings' expects ND/PBILDT (inclusive of SD and LC) to remain within the 3.5x levels as the company's management is expected to cautiously take up capacity expansion project(s).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its revenues and/or profitability margins leading to improvement in debt protection metrics, particularly net debt/PBILDT (inclusive of security deposits and LC acceptances) of less than 2x and return on capital employed to above 15% on a sustained basis.

Negative factors

- Moderation in profitability margins and/or any major new debt programme leading to net debt PBILDT levels (inclusive of SD and LC acceptances) of more than 3.50x.
- Any major debt programme either for capital expenditure or acquisition or to fund incremental working capital requirements leading to expectation of moderation in capital structure.
- Any significant deterioration in liquidity from the current levels, particularly reduction in cash & cash equivalents (including current investments) below Rs.300 crore.

Analytical approach: Consolidated

CARE Ratings has considered a consolidated view of the parent, BCL, and its subsidiaries owing to significant business, operational, and financial linkages between the parent and subsidiaries. Details of subsidiaries consolidated are listed in Annexure - 6.

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

Outlook: Stable

The 'Stable' outlook signifies expectation of sustaining the current financial risk profile, particularly, its debt coverage metrics, while continuing its strong operating performance. New debt-funded capex project(s) are expected to be undertaken with ND/PBILDT (inclusive of SD and LC) expected to remain within 3.5x.

Detailed description of key rating drivers:

Key strengths

Healthy competitive position supported further by diversified geographical profile

BCL is among the oldest cement manufacturing companies in India. Over the years, it has established a strong presence in cement markets of Central, Eastern, and Northern India. The company's standalone cement capacity of 10.19 MTPA is supplemented by 9.81 MTPA capacity of RCCPL, wholly owned subsidiary of BCL. The company derives about 50%-55% of its sales volumes from Central India dedicated 9.35 MTPA of cement capacity in the region, followed by Eastern region 19%-23% and Northern region 14%-16%. In May 2022, the company started operations of its Mukutban plant of 3.90 MTPA in Maharashtra, which largely caters to proximate regions of Vidharba, Marathwada, and Khandesh in Maharashtra and adjoining markets of Madhya Pradesh, Nizamabad, Telangana and adjoining markets of South Gujarat. This has increased its presence in Western region with share of volume from Western region rising from just 3% in FY22 to around 13% in FY24. Its benefit is already accruing with the company growing its cement volumes by 12% year-on-year (Y-o-Y) to 17.65 MT in FY24. However, realisations remained muted, leading to net sales growth of 11% y-o-y to ₹9476 crore in FY24. The volume growth was largely driven by healthy demand witnessed in residential real estate and government's push towards infrastructure, which also led to increase in proportion of non-trade sales in FY24. No major price hikes are expected for FY25 amidst intense competition between existing players and softened overall demand growth against earlier years. The Mukutban plant is expected to further ramp up its production, providing overall support in volumetric growth for the company in FY25.

Large retail trade mix driven by healthy brand recall and established distribution network

Despite being a commoditised business, BCL has been able to establish its brand over the years with its flagship cement brand "MP Birla Cement". M.P Birla Perfect Plus and Rakshak are its premium brands. The company has 11 brands of cement with varied characteristics. The company had reported distribution network of 278 sales promoters and 8500+ dealers, which significantly supports on-ground sales of BCL's products. The company largely sells blended cement, which is consumed by retail trade segment. Accordingly, the company's retail trade mix is 72% (77%) in FY24 (FY23). Considering its significant push on establishing its brand, the company has also been able to maintain its high premium products at 54% (51%) of the trade sales in FY24 (FY23). Continued focus on premium products is expected to be sustained, which leads to better realisation.

Integrated units with captive limestone mines, coal mines and power generation allowing cost competitiveness

Integrated units with captive limestone reserves, coal mine blocks, captive power sources supported by split grinding units allow the company to remain cost competitive. The company has limestone mines near its Satna, Chanderia, Maihar and Mukutban plant, which met more than 80% of total limestone requirements in FY24. In FY24, the currently operational coal mine provided about 20% of the company's fuel requirements in kiln. The company's Persoda limestone catering to the Mukutban unit has also been operational, which is expected to further reduce limestone requirements from outside in FY25. The company's Bikram coal mines in Madhya Pradesh is expected to run from Q4FY25, which once fully operational would increase captive coal consumption to 38%-40% of its fuel requirements in kiln.

The company has multiple power sources having installed 94 MW captive thermal power plant, 43.35 MW of Waste Heat Recovery System (WHRS) and 41.20 MW of Solar plant, which can manage around 60% of its power requirements. The company's power consumption per tonne of cement produced remains efficient supported by RCCPL's efficient units at 70 (71) kilowatt per tonne in FY24 (FY23).

Key weaknesses

Moderately leveraged capital structure and debt coverage metrics

The company has strong tangible net worth[2] as on March 31, 2024 (FY23), at ₹4702 crore (₹3994 crore). However, capital structure is moderately leveraged. Debt funded projects have kept the company's capital structure moderately leveraged with overall gearing 0.97x as on March 31, 2024, however, strengthened compared to FY23 ending at 1.27x, supported by reduction in total debt (excluding security deposits) by ₹560 crore in FY24. With improvement in profitability and no major capex in FY24, the company rationalised its debt. Consequently, debt coverage metrics improved, though remaining moderate. The company's ND/PBILDT moderated to 2.62x in FY24 from 5.55x in FY23. Similarly, interest coverage improved to 3.87x in FY24 from 2.33x in FY23. Though, the company is expected to undertake capex over the medium term but the ND/PBILDT (inclusive of SD and LC) is not expected to cross 3.5x.

Improvement in operating profitability yet characterised as moderate

Post significant pressure on operating costs in FY23 due to spike in power & fuel costs, and operational losses in Mukutban plant, the company has been able to improve its operating profitability in FY24. Pet coke and coal costs have significantly softened over the past 12 months, which has been gradually leading to moderation in power & fuel cost per tonne to ₹1103 in FY24 compared to ₹1508 in FY23. Further, operations of newly commissioned plant in Mukutban significantly ramped up its operations in FY24 and commissioning of cost-efficient Waste Heat Recovery System for power requirements, leading to turnaround in operating

[2] Tangible Net worth excludes revaluation surplus.

profit at plant level compared to operational loss in FY23. This led to significant improvement in PBILDT per tonne for BCL at consolidated level from ₹502 in FY23 to ₹814 in FY24. However, the company's operating profitability remains constrained considering moderate operating efficiencies from older units, particularly, high fuel requirements in BCL (Standalone) as one of its plant is very old cement manufacturing unit. Inversely, efficient units under RCCPL support profitability margins at a consolidated level.

In FY25, the company is expected to further benefit from incremental volumes from Mukutban and expected lower outside limestone procurement for Mukutban clinker operations. Further, the company has inventory of low-cost fuel at the start of FY25 compared to FY24, leading to expectation of continued lower power & fuel cost per tonne in FY25. However, muted realisations due to softened demand for cement expected in H1FY25 and possible price competition in H2FY25 for pushing volumes by cement players may lead to status quo in operating profitability.

Moderate operating profitability exposed to volatile input costs and price realizations

The company is exposed to commodity price risk arising from raw material price fluctuation (gypsum, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for power generation to run its plants and fuel for kilns. Over the recent past years, the cement industry has witnessed significant spike in power & fuel costs post pent-up demand for fuel after the world started opening post multiple COVID-19 waves and vaccinations. Thereafter, the Russia-Ukraine war exacerbated the fuel cost in FY22 and FY23. However, fuel costs have moderated over the past 12 months which reflected in the improvement of profitability of BCL as well. The company's profitability will remain exposed to significant input cost volatility and cement price realisation, which depends on each region's demand and supply dynamics (volume growth and installed capacity) to cater to the demand in a particular region.

Cyclicality of the cement industry

The cement industry is highly cyclical and depends largely on the country's economic growth. 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 unit realisations.

Liquidity: Strong

BCL's strong liquidity is supported by moderate cash and cash equivalents and adequate cushion between gross cash accruals (GCA) against repayment obligations and modest bank limit utilisation. The company has generated GCA of ₹1100 crore in FY24, which is expected to be sustained over the medium term. Against this, the company has repayment obligations of ₹581 crore The repayment obligations would balloon to ₹670 crore-720 crore annually for FY25 and FY26 but expected to be covered adequately by GCA.

The company has free cash and bank balances of ₹170 crore as on March 31, 2024, and liquid investments of ₹585 crore The company also modestly utilised its fund based working capital limits at 7% and 10% in BCL and RCCPL respectively over 12-months through March 2024. The company also has non-current investments in listed companies (including M. P. Birla group companies) and bonds totalling to about ₹702.37 crore as on March 31, 2024.

Environment, social, and governance (ESG) risks

The cement sector has a significant impact on the environment owing to higher emissions, generation of waste and consumption of water. Cement manufacturing process is energy intensive and its high dependence on natural resources, such as limestone, coal as key raw materials are key reasons. Due to the nature of operations affecting the local community and health hazards involved in the cement manufacturing process, the sector also has a social impact. BCL has continuously focused on mitigating its environmental and social risks. CARE Ratings believes BCL's commitment to ESG will support its strong credit profile.

Few steps are as below –

<u>Environment</u>

- Boosted renewable power generation and focused on utilizing industrial waste as alternative fuel and raw materials (AFR). Solar power generation capacity stands at 41.2 MW, combined with 43.35 MW from Waste Heat Recovery System (WHRS). BCL installed Solar Power Plants at different factories for increasing the share of renewable power in captive power consumption.
- Employed leak-proof BTAP rakes for flyash transportation, reducing truck trips by 25,000 a year and carbon footprint.
- Planted close to 81,000 trees at Mukutban to mitigate environmental impact of operations.

<u>Social</u>

- At Mukutban, the company collaborated with Central Institute of Petrochemicals Engineering and Technology (CIPET) to impart technical skills that make people employable.
- Under the healthcare programme of Arogyatai to support the health of young mothers and children, making an impact on at least 20,000 people across nine villages in the district of Yavatmal.

<u>Governance</u>

- The Board of Directors reaffirmed their continued commitment to good Corporate Governance Practices as set out by the Securities and Exchange Board of India ('SEBI') per annual report FY23. The company has complied with the Corporate Governance Code as stipulated under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)
[Cement](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Commodities	Construction materials	Cement & cement products	Cement & cement products

Incorporated in August 1919, BCL 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 20 MTPA as on March 31, 2024 (10.19 MTPA in BCL and 9.81 MTPA in RCCPL). BCL sells cement under well-established brands, the prominent being 'Birla Cement Samrat', 'Birla Cement Unique', MP Birla Perfect, and MP Birla Perfect Plus among others and 'Birla Cement Chetak' with strong presence in central, eastern and northern India. It is also engaged in Jute sales.
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 charge as the company's Chairman. However, the ownership of BCL is under legal dispute between Harsh Vardhan Lodha and the descendants of the Birla family. CARE Ratings will continue to monitor developments in this regard.

BCL - Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)*
Total operating income	8687.45	9659.70
PBILDT	789.84	1437.03
PAT	40.50	420.56
Overall gearing (times)	1.27	0.97
Interest coverage (times)	2.33	3.87

A: Audited UA: Unaudited; Note: these are latest available financial results
* Abridged financials
Please note Overall gearing and ND/PBILDT ratios factor in security deposits and Creditors on LC

BCL - Standalone

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)*
Total operating income	5443.66	5693.73
PBILDT	268.40	542.49
PAT	45.40	198.11
Overall gearing (times)	0.34	0.29
Interest coverage (times)	2.51	4.88

A: Audited UA: Unaudited; Note: these are latest available financial results
*Abridged financials
Please note Overall gearing ratio factor in security deposits and Creditors on LC

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: 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
Debentures-Non Convertible Debentures	INE340A07084	18-08-2016	9.25%	18 August 2026	200.00	CARE AA; Stable
Debentures-Non Convertible Debentures	INE340A07092	14-09-2016	9.25%	14 September 2026	50.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	390.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30/09/2028	237.66	CARE AA; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	793.00	CARE AA; 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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	793.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Negative / CARE A1+ (03-Jul-23)	1)CARE AA / CARE A1+ (04-Jul-22)	1)CARE AA; Stable / CARE A1+ (05-Jul-21)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Jul-21)
3	Fund-based - LT-Cash Credit	LT	390.00	CARE AA; Stable	-	1)CARE AA; Negative (03-Jul-23)	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)
4	Fund-based - ST-Bank Overdraft	ST	-	-	-	-	-	1)Withdrawn (05-Jul-21)
5	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	-	1)Withdrawn (05-Jul-21)
6	Fund-based - LT-Term Loan	LT	237.66	CARE AA; Stable	-	1)CARE AA; Negative (03-Jul-23)	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)
7	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	-	1)CARE AA; Negative (03-Jul-23)	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)

8	Debentures-Non Convertible Debentures	LT	50.00	CARE AA; Stable	-	1)CARE AA; Negative (03-Jul-23)	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)

LT: Long term; ST: Short term; LT/ST: 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	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: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	RCCPL Private Limited	Full	Subsidiary
2.	Birla Jute Supply Company Limited	Full	Subsidiary
3.	Talavadi Cements limited	Full	Subsidiary
4.	Lok Cements Limited	Full	Subsidiary
5.	Budge Budge Floor Coverings Limited	Full	Subsidiary
6.	Birla (Cement) Assam Limited	Full	Subsidiary
7.	M.P. Birla Group Services Private Limited	Full	Subsidiary
8.	AAA Resources Private Limited	Full	Wholly owned step-down subsidiary (RCCPL – 100%)
9.	Utility Infrastructure & Works Private Limited	Full	Wholly owned step-down subsidiary (RCCPL – 100%)
10.	SIMPL Mining & Infrastructure Limited	Full	Wholly owned step-down subsidiary (RCCPL – 100%)

Name of companies/ Entities	% of holding as on March 31, 2024
RCCPL Private Limited	100%
Birla Jute Supply Company Limited	100%
Talavadi Cements limited	98.01%
Lok Cements Limited	100%
Budge Budge Floor Coverings Limited	100%
Birla (Cement) Assam Limited	100%
M.P. Birla Group Services Private Limited	100%
AAA Resources Private Limited	Wholly owned step-down subsidiary (RCCPL – 100%)
Utility Infrastructure & Works Private Limited	Wholly owned step-down subsidiary (RCCPL – 100%)
SIMPL Mining & Infrastructure Limited	Wholly owned step-down subsidiary (RCCPL – 100%)

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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