Credit Update – UltraTech Cement Limited

August 5, 2024

Update

CARE Ratings Limited (CARE Ratings) has taken cognisance of the recent announcement of potential acquisition of The India Cements Limited (ICL) by UltraTech Cement Limited (UltraTech) subject to clearance of regulatory approvals. UltraTech's board of directors has approved the purchase of 32.72% equity stake in ICL from the promoter group and other large shareholders. The share purchase agreement for 32.72% equity stake has also been signed, thus UltraTech is effectively expected to gain majority stake considering its previous purchase of 22.77% shares in ICL. In line with regulatory provisions, UltraTech has also made open offer for approximately 8.06 crore to the public shareholders.

Subject to the regulatory approvals, CARE Ratings does not foresee adverse impact on the company's credit profile. Though it has been noted that with ICL's expected acquisition and earlier announced acquisition of cement division of Kesoram Industries Limited (Kesoram), the net debt (including security deposits and letter of credit acceptances) to profit before interest, lease rentals, depreciation, and taxation (PBILDT) is expected to moderate to more than 1x. The extent of moderation will be largely dependent on the rebalancing of the capital expenditure by UltraTech and liquidation of land parcels available with ICL. However, it is noteworthy that the negative rating sensitivity trigger for net debt (including SD & LC) to PBILDT is at 2x on a sustained basis. CARE Ratings will continue to monitor leverage and coverage ratios; however, currently, the same are expected to remain comfortably lower than negative sensitivity trigger. CARE Ratings believes that once these concerned cement units are integrated with Ultratech, the same are expected to deliver better operating performance. This and possible sales of land parcels available within ICL may provide lead to limited incremental debt. Liquidity may also moderate in the medium term owing to the recent acquisitions. However, strong cash flow from operations and financial flexibility in terms of headroom for raising debt are expected to remain intact. The company will be rebalancing its capex in the South following acquisition of Kesoram and ICL, which is expected to provide cashflow comfort over the medium term in liquidity.

CARE Ratings continues to rate the company's bank facilities and instruments at "CARE AAA; Stable/CARE A1+". Ratings continue to factor in UltraTech's continued market leadership position in cement sector in India. The recent potential acquisitions of Kesoram and ICL expedites the company's path to its 200 MTPA capacity target, thus consolidating its market leadership. Ratings also draw comfort from UltraTech's sound operating efficiencies supported by highly integrated operations with adequate limestone reserves in its captive mines, a captive coal block, and a strong distribution network. However, CARE Ratings notes that despite these strengths, the company will remain exposed to cyclicality in the cement industry and volatility in input costs.

Please refer the following link for the previous detailed rationale that captures key rating drivers and rating sensitivities of following companies.

Sr. No.	Entity Name	Link to press release
1.	Ultratech Cement Limited	Click here

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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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