

Utkal Alumina International Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / short-term bank facilities	677.00	CARE AA+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Utkal Alumina International Limited (UAIL) continues to factor in its strategic importance to the established parent, Hindalco Industries Limited (HIL; rated 'CARE AA+; Stable/ CARE A1+'), as a key backward integrator for alumina requirement, eventually enabling the parent to be one of the lowest cost primary aluminium producers globally. The ratings further continue to factor in the consistently strong operational and financial performance of the company over the last three fiscals (FY21 to FY24; FY refers to period from April 01 to March 31), backed by increase in sales volumes and realisations along with healthy spreads. Improved cash flow from operating activity has resulted into further strengthening of the financial risk profile of the company, thereby allowing it to deleverage and maintain a superior liquidity position.

Apart from fulfilling the group's captive requirements, CARE Ratings Limited (CARE Ratings) expects healthy underlying demand for alumina in both, the domestic as well as international market. This remains supportive to the sustained improvement in the operational and financial risk profiles of the company. UAIL is expected to generate healthy free cash flows from operating activity which is expected to be sufficient to fund its envisaged capex plans, while maintaining a healthy net debt negative position. The rating strengths are, however, tempered due to susceptibility of profitability because of volatile metal prices as well as prices of key raw material like caustic soda, coal, coal tar pitch, etc.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the credit risk profile of parent, HIL.

Negative factors

- Any deterioration in the credit risk profile of parent, HIL.
- Large scale debt-funded capex leading to overall gearing above 0.50x.

Analytical approach: Standalone

CARE Ratings has adopted a standalone approach while factoring in its strong operational linkages with the parent (HIL). We have also factored in the economic and strategic importance of UAIL for the operations of HIL.

Outlook: Stable

Stable outlook reflects that the rated entity continues to maintain strong operational levels driven by its cost-efficient nature of operations while enjoying the absence of any counter party risk. CARE Ratings expects that the company will continue to maintain strong profitability going forward.

Detailed description of key rating drivers:

Key strengths

Improved volume sales and profitability levels

During FY24, the company has witnessed improvement in total operating income (TOI) due to increase in its sales volume, which is further aided by improvement in the average realisation to ₹25,454 per tonne (PY: ₹25,063 per tonne). Profitability levels increased amidst decrease in power and fuel expenses for the company. Profit before interest, lease, depreciation and tax (PBILDT) per tonne increase to ₹10,971 per tonne (PY: ₹9,823 per tonne). This rise in volumes and reduction in operating costs have resulted in an operating profit of ₹2,688 crore (PY: ₹2,274 crore).

Reputed promoter group supported by professionally qualified management.

UAIL is a 100% subsidiary of HIL - the flagship metal 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 as well as in project management. The company is led by a professional and experienced management team, which has helped the company maintain a successful track record in the industry.

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

Backward integration - captive source of raw material

UAIL requires about 8 million tonnes per annum (MTPA) of bauxite annually. UAIL has obtained the mining lease for the Baphlimali bauxite mines from Odisha Mining Corporation Limited (OMCL). The estimated reserves of the mines are expected to be sufficient to feed the existing capacity of 2.60 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 through its integrated nature of operations process, ensuring a low cost and assured raw material supply for UAIL.

Business integration with HIL's overall expansion plans

Majority of UAIL's output goes into HIL smelters, thereby it remains pivotal for the parent to strategically plan the capacity addition at UAIL to ensure optimum quantity of raw material requirement at its smelter. During FY22, HIL had successfully ramped up two greenfield smelter plants, Mahan Aluminium smelter (at Bhargwan, Madhya Pradesh) and Aditya Aluminium (at Rayagada, Odisha), with a capacity of 360 KTPA (thousand tonnes per annum) each. Supporting this capex, UAIL had also increased its capacity from 1.5 MTPA to 2.12 MTPA with no cost/time over runs. In FY23, the company further expanded its capacity by 0.35 MTPA by debottlenecking existing facilities. In FY24, significant equipment was installed in the refinery's white area to complete a third train, making it equivalent to the other two trains, along with necessary auxiliary and utility upgrades. This project was successfully commissioned in October 2023, increasing the refinery's capacity to approximately 2.60 MTPA. This capacity enhancement prepares the refinery for the parent company's future requirements and also allows it to tap into external sales for better margins. The company has entered into an agreement with HIL, ensuring stable revenue and visible cash flows for UAIL, along with corresponding savings on selling and marketing costs.

Strong capital structure with prepayment of term debt

The company continues to remain debt free, with significant surplus liquidity position. CARE Ratings expects that the company will continue to remain net debt negative with no major planned capex, and historically, the working capital utilisation also remained at negligible levels.

Key weaknesses**Highly susceptible to volatility in metal prices**

The industry remains acutely sensitive to fluctuations in metal prices and currency exchange rates, particularly in the context of the ongoing volatility in aluminium prices. Over the past year, these commodities have experienced significant price swings, largely driven by geopolitical events and the broader global economic landscape.

Industry outlook for alumina and aluminium

The outlook for the aluminium industry is expected to remain stable, bolstered by strong growth in end-user sectors such as infrastructure, power, and automotive. The global alumina market is also expected to remain strong over the medium term period. Additional demand is anticipated from industries including aviation, aerospace, construction, packaging, renewable energy, consumer durables, and defence. As a key segment of the Indian economy, the aluminium industry is poised to contribute significantly to the country's future development. Over the projected period, the demand for alumina in the market will increase due to changing consumer preferences for lightweight materials and increased aluminium consumption for the building and automotive industries. The growing production of electric cars is a significant driver for the high purity alumina market (electric vehicles [EVs]).

Liquidity: Strong

The company continues to generate robust cash flows from operating activity vis-à-vis nil repayment obligations. UAIL has a cash and liquid investments of around ₹4,320 crores as on March 31, 2024. During FY23, the company has prepaid all its debt obligations which were due in September 2030, and it continues to remain net debt negative as on March 31, 2024. Historically, the utilisation of the working capital limits is also marginal leaving sufficient headroom for any unexpected price volatility as well as any likely increase in its working capital requirements. Going forward, with marginal interest expenses and stable operating margins, the company is expected to maintain strong treasury balance. UAIL's operating cycle is between 61 days and 70 days.

Assumptions/Covenants: NA**Environment, social, and governance (ESG) risks: NA****Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)
[Non Ferrous Metal](#)
[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & mining	Non-ferrous metals	Aluminium

UAIL, a wholly owned subsidiary of HIL, was incorporated in 1993. HIL, the flagship metals company of the Aditya Birla group, is the largest aluminium manufacturer in India and one of the lowest cost producers of primary aluminium in the world. UAIL has implemented a fully integrated 2.60 MTPA alumina refinery project in Rayagada, Odisha. The alumina produced by UAIL is used by HIL for feeding in its smelters for making aluminium. UAIL is a strategic company for HIL with operational synergy between the two companies providing backward integration. Furthermore, UAIL has a 100% off-take arrangement with HIL for the alumina produced. Alumina manufactured at this plant is sold to HIL for its plants – Mahan Aluminium smelter and Aditya Aluminium smelter located in Madhya Pradesh (MP) and Odisha, respectively.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(UA)
Total operating income	5,899.59	6,236.28	1903
PBILDT	2,273.91	2,687.82	973
PAT	1,690.80	1,670.66	569
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	29.00	395.27	590.6

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	677.00	CARE AA+; Stable / CARE A1+

Annexure-2: Rating history for 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	Fund-based/Non-fund-based-LT/ST	LT/ST	677.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (30-Oct-23)	1)CARE AA+; Stable / CARE A1+ (06-Oct-22)	1)CARE AA+; Stable / CARE A1+ (04-Mar-22) 2)CARE AA+; Stable / CARE A1+ (07-Oct-21)
2	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	-	1)Withdrawn (06-Oct-22)	1)CARE A1+ (07-Oct-21)
3	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (06-Oct-22)	1)CARE AA+; Stable (04-Mar-22) 2)CARE AA+; Stable (07-Oct-21)

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA
Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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