

Birla Corporation Limited

March 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities- Term Loan	976.08 (enhanced from 600.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Birla Corporation Limited (BCL) continues to draw strength from the long and satisfactory track record of the management along with support of MP Birla Group, multi-region presence with strong brand recall, operational efficiency achieved due to availability of sizeable mineral reserve and captive power plant, cost optimization offered by split units of the project and proximity of the project to various raw material sources, satisfactory financial performance in FY18 and 9MFY19 and RCCPL Private Limited's (RCCPL) eligibility for various incentives which results in cost advantages. However, the capital structure continues to remain leveraged owing to debt raised for acquisition of RCCPL. On the other hand, the ratings continue to be constrained by project risk associated with Capex at Mukutban in RCCPL and cyclicity of the cement industry.

Ability of the company to maintain the existing liquidity in terms of free cash and liquid investment, timely execution of capex without any cost over-run and timely receipt of subsidies will remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strength

Long and satisfactory track record of the management along with support of MP Birla Group

Incorporated in August 1919 and operating successfully for more than nine decades, Birla Corporation Ltd. (BCL) is the flagship company of the M. P. Birla group. The group is a leading industrial group with other major companies being Hindustan Gum & Chemicals Ltd, Vindhya Telelinks Limited, Universal Cables Limited and RCCPL Private Limited (RCCPL). BCL along with RCCPL, a wholly owned subsidiary, has a group installed cement capacity of 15.58 MTPA.

The company is managed under the leadership of Mr. H. V. Lodha who is a Chartered Accountant with more than three decades of professional experience. The Board also includes Shri B. R. Nahar, a Chartered Accountant, as the MD of the company, and five independent professionals from diverse fields. Further, healthy cash and liquid investment at group level provides financial flexibility and supports liquidity position of the group.

Multi-region presence with strong brand recall

BCL along with RCCPL has significant presence in Central (Madhya Pradesh & Uttar Pradesh) and Northern regions (Rajasthan & Haryana) of the country with an aggregate installed capacity of 15.58 MTPA. Going forward, the group is also considering alternatives to increase its presence in Western regions. The group sells its products under well established brands viz. Birla Cement Samrat, Birla Samrat Unique, Birla Cement Chetak, M.P Birla Perfect, etc.

Operational efficiency due to availability of sizeable mineral reserve and captive power plant

The group has backward integration by way of captive limestone and coal mines alongwith captive power plants (CPP). The group has operational limestone reserves at Chanderia in Rajasthan and Satna and Maihar in Madhya Pradesh alongwith coal reserve at Sial Ghogri in Madhya Pradesh. BCL commenced mining of limestone in the Chanderia unit from August 2013 based on the interim Supreme Court order dated July 29, 2013. Further, BCL has installed CPP while RCCPL is in the process of setting up Waste Heat Recovery System (WHRS). These backward integration measures are likely to continue to accrue benefits to the group strengthening its financial risk profile.

Cost optimization offered by split units of the project and proximity of the project to various raw material sources

BCL and RCCPL have the cement operating units spread across Madhya Pradesh, Uttar Pradesh, West Bengal, Maharashtra and Rajasthan. The plant at Maihar enjoys a very good central location to service markets as well as other grinding units. Limestone requirements of units at Satna, Raebareli and Durgapur are met from the limestone mines at Satna whereas limestone requirements at Chittorgarh are met out of a mix of captive limestone at Chanderia and from purchases in open markets. Further, other raw materials are also located in close proximity to the grinding units. The entities are operating grinding facilities near the user markets to save upon the cost of logistics.

Satisfactory financial performance in FY18 and 9MFY19; leveraged capital structure owing to RCCPL acquisition

The consolidated performance of BCL during FY18 witnessed significant growth of around 31% vis-à-vis FY17 on the back of significant improvement in operational performance of RCCPL wherein the capacity utilisation improved in FY18. The financial

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

performance is primarily backed by improvement in the cement sales volumes which improved from 11.40 MT during FY17 to 12.46 MT in FY18 while the realisation witnessed marginal rise of 1.9% in FY18.

However, the PBILDT margin deteriorated during FY18 vis-à-vis FY17 owing to increase in input cost driven by fuel and freight expenses during Q3FY18 mainly due to increase in pet coke prices and crude oil prices. Further, subdued demand scenario on account of sand mining issues in North India further impacted the margin adversely. The PAT margin deteriorated during FY18 due to lower treasury income and higher interest expense. In 9MFY19, consolidated turnover stood at Rs.4,730.02 crore and PAT of Rs.127.51 crore which was better than 9MFY18 owing to ramping up of operation in RCCPL.

The overall gearing improved from 1.49x as on March 31, 2017 to 1.43x as on March 31, 2018 due to declining term loan balance. The gearing continues to remain moderate despite the additional debt raised for acquisition of RCCPL. Interest coverage and total debt to gross cash accruals (GCA) also improved during FY18 vis-à-vis FY17.

RCCPL's eligibility for various incentives results in cost advantages

The operating manufacturing units of RCCPL, a wholly owned subsidiary, in Madhya Pradesh, Uttar Pradesh and Maharashtra have been granted the status of Mega Projects and are eligible for special incentives. Incentives categories include VAT (now substituted with GST) /Sales Tax and stamp duty exemption and capital investment subsidy amongst others. The incentives have the potential to recover majority of the investment which can provide cost advantages in the future course of operations. However, timely receipt of such incentives continues to remain a key rating sensitivity.

Key Rating Weakness

Project risk associated with Capex at Mukutban in RCCPL

RCCPL is in the process of setting up a 3.9 MTPA of integrated cement plant at Mukutban in Maharashtra (close to Butibori) which will be equipped with captive limestone reserve and captive power plant. The project cost till date has been incurred approx. Rs. 350 crs and is likely to be commissioned by April 2021. The total capital outlay of the project is expected to be around Rs.2,450 crore to be funded at debt-equity ratio of 2:1. The promoter contribution of the project is expected to be met from internal accruals. With the said additional capacity expansion, the group's total cement installed capacity is expected to go up to 19.48 MT from the existing 15.58 MT and the group will be able diversify its existence from Central to Central and Western regions. Timely execution of the project without any cost over-run will remain a key rating sensitivity.

Cyclical nature of the cement industry

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 which directly expose the cash flows and profitability to volatility of the industry.

Liquidity analysis

BCL had cash & cash equivalents of Rs.883.44 crore as on March 31, 2018 (Rs. 867.49 crore as on March 31, 2017) which provides comfort to the liquidity position of the company

Analytical approach

For arriving at the ratings, CARE has considered the consolidated business and financial risk profiles of BCL and RCCPL as these companies are engaged in similar line of operation under a common management and have financial linkage. The consolidated financial statement includes six more subsidiaries other than RCCPL which do not have any major operations. The six subsidiaries are namely Birla Jute Supply Co. Limited, Talavadi Cements Ltd, Lok Cements Ltd, Budge Budge Floor Covering Limited, Birla Cement (Assam) Ltd and MP Birla Group Services Pvt. Ltd.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing Companies](#)

[CARE's methodology for cement companies](#)

[Financial Ratios – Non-Financial Sector](#)

[Factoring linkages in Rating](#)

About the Company

Birla Corporation Limited (BCL), incorporated in August 1919, is the flagship company of the M. P. Birla group. The company is a multi-location cement manufacturing company with an aggregate capacity of 10 mn tonnes p.a. It is also engaged in Jute sales which contributed around 8.02% of BCL's standalone sales in FY18. BCL sells cement under various well established brands, prominent being 'Birla Cement Samrat', 'Birla Samrat Unique', a premium Portland Slag Cement and 'Birla Cement Chetak' with its key markets being Madhya Pradesh, Uttar Pradesh, Rajasthan, West Bengal & Bihar. BCL is currently under the control of Shri H. V. Lodha.

In August 2016, BCL successfully acquired 100% equity stake in RCCPL Private Limited (RCCPL) (erstwhile Reliance Cement Company Private Limited) to expand its cement business. Currently, RCCPL has 5.58 MTPA cement manufacturing units spread across Madhya Pradesh, Uttar Pradesh and Maharashtra. BCL alongwith RCCPL has total installed cement capacity of 15.58 MTPA.

Financials of Birla Corporation Limited (Consolidated)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4375.97	5760.35
PBILDT	650.29	820.09
PAT	219.47	153.95
Overall gearing (times)	1.49	1.43
Interest coverage (times)	2.35	2.17

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 - LT-Term Loan	-	-	December 2029	976.08	CARE AA; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Short Term Debt	ST	-	-	-	-	-	1)Withdrawn (04-Feb-16) 2)CARE A1+ (Under Credit Watch) (29-Dec-15) 3)CARE A1+ (Under Credit Watch) (18-Aug-15)
2.	Non-fund-based - ST-BG/LC	ST	798.00	CARE A1+; Stable	1)CARE A1+; Stable (04-Oct-18)	1)CARE A1+ (30-Aug-17)	1)CARE A1+ (31-Jan-17) 2)CARE A1+ (09-Aug-16)	1)CARE A1+ (Under Credit Watch) (19-Feb-16) 2)CARE A1+ (Under Credit Watch) (29-Dec-15) 3)CARE A1+ (Under Credit Watch) (18-Aug-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Aug-17)	1)CARE AA; Stable (31-Jan-17) 2)CARE AA (09-Aug-16)	1)CARE AA+ (Under Credit Watch) (19-Feb-16) 2)CARE AA+ (Under Credit Watch) (29-Dec-15) 3)CARE AA+ (Under Credit Watch) (18-Aug-15)
4.	Debentures-Non Convertible Debentures	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)	1)CARE AA; Stable (31-Jan-17) 2)CARE	1)CARE AA+ (Under Credit Watch) (19-Feb-16) 2)CARE AA+ (Under Credit

							AA (09-Aug-16)	Watch) (29-Dec-15) 3)CARE AA+ (Under Credit Watch) (18-Aug-15)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (29-Dec-15) 2)CARE AA+ (Under Credit Watch) (18-Aug-15)
6.	Debentures-Non Convertible Debentures	LT	130.00	CARE AA; Stable	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)	1)CARE AA; Stable (31-Jan-17) 2)CARE AA (09-Aug-16)	1)CARE AA+ (Under Credit Watch) (19-Feb-16) 2)CARE AA+ (Under Credit Watch) (29-Dec-15) 3)CARE AA+ (Under Credit Watch) (18-Aug-15)
7.	Fund-based - LT-Cash Credit	LT	350.00	CARE AA; Stable	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)	1)CARE AA; Stable (31-Jan-17) 2)CARE AA (09-Aug-16)	1)CARE AA+ (Under Credit Watch) (19-Feb-16) 2)CARE AA+ (Under Credit Watch) (29-Dec-15) 3)CARE AA+ (Under Credit Watch) (18-Aug-15)
8.	Fund-based - ST-Bank Overdraft	ST	40.00	CARE A1+; Stable	1)CARE A1+; Stable (04-Oct-18)	1)CARE A1+ (30-Aug-17)	1)CARE A1+ (31-Jan-17) 2)CARE A1+ (09-Aug-16)	1)CARE A1+ (Under Credit Watch) (19-Feb-16) 2)CARE A1+ (Under Credit Watch) (29-Dec-15) 3)CARE A1+ (Under Credit Watch) (18-Aug-15)
9.	Fund-based/Non-fund-based-LT/ST	LT/ST	110.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (04-Oct-	1)CARE AA; Stable / CARE A1+ (30-Aug-17)	1)CARE AA; Stable / CARE A1+ (31-Jan-	1)CARE AA+ / CARE A1+ (Under Credit Watch) (19-Feb-16) 2)CARE AA+ /

					18)		17) 2)CARE AA / CARE A1+ (09-Aug- 16)	CARE A1+ (Under Credit Watch) (29-Dec-15) 3)CARE AA+ / CARE A1+ (Under Credit Watch) (18-Aug-15)
10.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
11.	Fund-based - LT- Term Loan	LT	976.08	CARE AA; Stable	1)CARE AA; Stable (04-Oct- 18)	1)CARE AA; Stable (30-Aug-17)	1)CARE AA; Stable (31-Jan- 17) 2)CARE AA (09-Aug- 16)	-
12.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA; Stable	1)CARE AA; Stable (04-Oct- 18)	1)CARE AA; Stable (30-Aug-17)	1)CARE AA; Stable (31-Jan- 17) 2)CARE AA (09-Aug- 16)	-

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