Birla Corporation Limited

July 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	**1,271.48 (Reduced from Rs.1322.16 crores)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	**843.00 (Reduced from Rs.873.00 crores)**	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long/Short-term Bank Facilities	**50.00**	**CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable / A One Plus)**	**Reaffirmed**
Total	**2,164.48 (Rupees Two Thousand One Hundred and Sixty Four crore and Forty Eight Lakhs only)**		
Non-Convertible Debentures (Series IV)	**130.00 (Rupees One Hundred and Thirty Crore only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Non-Convertible Debentures (Series V)	**400.00 (Rupees Four Hundred Crore only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instruments of Birla Corporation Limited (BCL) continues to draw strength from the company's long and established track record in the cement industry, its multi-region presence with strong brand recall and strong distribution network, majority sales from blended cement segment, operational efficiency alongwith availability of sizeable mineral reserve and captive power plant, cost optimization offered by split units and proximity to various raw material sources, improvement in financial performance in FY20 marked by better realization and improved EBITDA/tonne, comfortable liquidity position and RCCPL Private Limited's (RCCPL) eligibility for various incentives which results in cost advantages. However, the ratings continue to be constrained by volatility in input & finished goods prices, project risk associated with large debt funded capex in both BCL and RCCPL and cyclicality of the cement industry.

Rating Sensitivities

Positive Factors

- *Timely completion of ongoing capex within the envisaged cost & deriving benefit out of the same resulting in sustained improvement in operational and financial performance.*
- *Improvement in scale of operation leading to increase in total operating income (to greater than Rs.8,000 crore) and profitability (PBILDT margin greater than 23%) on a sustained basis.*
- *Improvement in capital structure (overall gearing less than 0.7x) and debt protection metrics (PBILDT interest coverage greater than 6x) on a sustained basis.*

Negative Factors

- *Lower than envisaged profitability leading to decline in PBILDT margins below 15%*
- *Dip in cash & liquid investments (including unutilized bank lines) below Rs.500 cr*
- *Any further large scale debt ridden capex leading to deterioration in capital structure.*

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory track record in the cement industry & professional management along with support of M.P Birla group

Operating successfully for a century, Birla Corporation Ltd. (BCL), incorporated in August 1919, is the flagship company of the M. P. Birla group- a leading industrial group with other major companies being Hindustan Gum & Chemicals Ltd, Vindhya Telelinks Ltd, Universal Cables Ltd and RCCPL Private Limited. BCL on a standalone basis has an installed cement capacity of 10.00 MTPA per annum. In August 2016, BCL successfully acquired 100% equity stake in RCCPL Private Limited (RCCPL) to expand its cement business. At present, BCL along with RCCPL have a group installed cement capacity of 15.58 MTPA.

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

The company is managed under the leadership of Mr. H. V. Lodha who is the son of late Mr. R. S. Lodha and a Chartered Accountant with more than three decades of professional experience. Besides, although BCL's cash flows are sufficient to take care of its repayment obligations, if required, the group will support the company financially as stated by the management.

Multi-region presence with strong distribution network and strong brand recall
BCL along with RCCPL has significant presence in Central (Madhya Pradesh) and Northern regions (Uttar Pradesh & Rajasthan) of the country with an aggregate installed capacity of 15.58 MTPA. They have a network of 1250 marketing staff, 300 sales promoters and more than 10000 dealers (both BCL and RCCPL). Approximately 82% of the company's sales are generated from Trade channels and around 18% from Non-trade channels. On a combined basis, the plants cover an average radius of approximately 350 kms. Going forward, the group is setting up a plant in Mukutban, Maharashtra to increase its presence in Western region. The group sells its products under well established brands viz. M.P Birla Cement Samrat, M.P Birla Samrat Unique, M.P Birla Cement Chetak, M.P Birla Perfect Plus, etc.

Majority sales from blended cement
The company manufactures both PPC (Pozzolona Portland Cement – 92% contribution of overall sales in FY20) and OPC (Ordinary Portland Cement – 8% contribution of overall sales in FY20) in BCL and RCCPL. Furthermore, the company is looking to expand its premium brands like 'M.P Birla Perfect Plus', M.P Birla Unique Cement, M.P Birla Ultimate, M.P Birla Ultimate Ultra, M.P Birla Samrat advance' which commands premium prices. The company has increased the share of premium brands in its total sales from 37% in FY19 to 40% in FY20 which has positively impacted its profitability margins.

Operational efficiency with availability of sizeable mineral reserve and captive power plant
BCL has backward integration by way of captive limestone mines (100% in RCCPL and 85% in BCL) and captive power plants (CPPs, solar and WHRS). BCL has 2 operational captive limestone mines (Sagmania & Birhuli) at Satna, Madhya Pradesh & 2 operational captive limestone mines (Bherda & Jai Surjana) at Chanderia, Rajasthan. The company sources ~85% of its limestone requirement from captive mines, which are mixed with high grade limestone purchased from market. The company has sizeable reserves of captive limestone mines. The company also has captive coal based power plants (CPP) having aggregate capacity of 54 MW, WHRS plants having capacity of 22.50 MW and 5.50 MW solar plants at Satna and Chanderia ensuring continuous supply of power at competitive rates meeting about 69% of its power requirement in FY20 (as compared to 61% in FY19). The availability of the captive power plant for part power requirement reduces the dependence on the expensive source of power from the grid thereby optimizing power & fuel cost. The power consumption of the company per tonne of cement stood at 78 kw/tonne in BCL and 67 kw/tonne in RCCPL as compared to industry average of 80 kw/tonne.

RCCPL has commissioned its Waste Heat Recovery System (WHRS) of 10.25 MW capacity and solar power of 7.70 MW capacity in Q4FY20 which has met 8% of company's power requirement in FY20 (as compared to Nil in FY19), thereby bringing economies to power cost of the company. RCCPL has sizable captive limestone mines spread across the country having sufficient mineable reserves (operational mine in Sadehra and Salaiya, Madhya Pradesh with estimated limestone reserves of 150 million tonnes and rest non-operational). It sources 100% of its limestone requirement from its captive mines.

Furthermore, RCCPL has a captive coal mine at Sial Ghogri, Madhya Pradesh spread across an area of 429.10 Ha with an extractable reserve of 5.69 MMT. The total consumption from the mine has been raised from 1.05 lakh ton in FY19 to 1.67 lakh ton in FY20 (45% of coal requirement in RCCPL in FY20 vis-a-vis 29% in FY19).

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 entities are operating grinding facilities near the user markets to save upon the cost of logistics. The integrated plants at Maihar and Satna enjoy very good central location to service markets as well as other grinding units. Major Clinker requirement for Raebareli and Durgapur are met from Satna and Maihar whereas limestone requirements of individual plants are met out of a mix of captive limestone near the plants and purchases of high grade limestone from open markets. Further, apart from limestone which constitutes basic raw material, other raw materials are also located in close proximity to the project sites which in turn enables the entity to optimize its cost.
RCCPL has its operational units spread across Maihar in MP, Kundanganj (300 kms from Maihar) in UP and Butibori (461 kms from Maihar) in Maharashtra. Out of the three units, only the unit at Maihar is an integrated facility whereas in other two places, the company is operating grinding facilities near the user markets to save upon the cost of logistics. Limestone requirements of the unit at Maihar are met through Sadhera and Salaiya mines which is around 10 kms from the site and clinker requirements of two grinding units are met from the Maihar site. The unit at Maihar is well equipped with railway sidings which provide smooth and cost-effective transportation.

Improvement in financial performance in FY20 marked by better realization

Consolidated Income from operations during FY20 witnessed growth of around 6% to Rs. 6,948 cr vis-à-vis FY19 on the back of significant improvement in average sales realisation of cement from Rs.4970/ton in FY19 to Rs.5305/ton in FY20 in BCL and from Rs.5066/ton in FY19 to Rs.5151/ton in FY20 in RCCPL.

The capacity utilisation of the cement division for BCL and RCCPL remained stagnant in FY20 at 87% and 91% in comparison to 89% and 89% respectively in FY19, majorly owing to Covid-19 lockdown during the latter part of March 2020. However, consolidated PBILDT margin improved significantly during FY20 to 19.86 % vis-à-vis 14.60% in FY19 owing to increase in realisation in both BCL and RCCPL and fall in fuel cost in RCCPL driven by lower coal cost. The PAT margin also improved from 3.90% in FY19 to 7.27% in FY20.

Overall gearing improved marginally from 1.31x as on March 31, 2019 to 1.28x as on March 31, 2020 due to accretion of profits despite increase in term loan. Other debt indicators like interest coverage and total debt to gross cash accruals (GCA) improved during FY20 to 3.56x and 4.92x respectively vis-à-vis 1.75x and 7.65x in FY19 on account of accretion of profits. With the gradual increase in scale of RCCPL's operations, addition of captive power plants and rampup in captive coal production, BCL is expected to derive various synergy benefits which in turn are likely to improve its existing operational and financial-risk profile.

RCCPL's eligibility for various incentives results in cost advantages

RCCPL's operating manufacturing units in MP, UP has been granted the status of Mega Projects and has been granted special incentives. Incentives categories include VAT (now substituted with GST) /Sales Tax and stamp duty exemption, capital investment subsidy amongst others. The incentives have the potential to recover the entire investment which can provide cost advantages in the future course of operations. In FY20, accrued subsidy benefit stood at Rs.160.30 crore while RCCPL received around Rs.220.19 crore of subsidies thereby improving liquidity position. As on March 31, 2020, subsidy receivable stood at Rs.256.34 cr.

In addition to the above, for the upcoming unit at Mukutban, expected GST subsidy spans 20 years from FY22.

Key Rating Weaknesses

Volatility in input and finished goods prices

Limestone along with power and fuel cost are the major cost components for the cement industry. BCL and RCCPL have captive limestone mines meeting 85% and 100% requirement of limestone respectively. BCL also has captive sources of power generation in form of CPPs, WHRS and solar power plant meeting around 69% of its power requirements. RCCPL has also set up WHRS and solar power plants, which were commissioned in Q3FY20, to meet substantial portion of its power requirements in future and providing power at much competitive rates (grid rates are ~ Rs.7 per unit as compared to WHRS cost of Rs.1.50 per unit). The company meets its requirement of coal in a mix of indigenous coal and imported coal. The company has entered into coal linkages with Coal India Limited for supply of coal from various mines for coal requirements in Satna and Chanderia. Coal linkages cater to around 47% of the coal requirement of thermal power plant in Chanderia, and around 75% and 35% for CPP and kiln burning respectively in Satna. Rest of the fuel are bought from open markets. RCCPL has a captive coal mine at Sial Ghogri, Madhya Pradesh, which catered to ~46% (29% in FY19) of the total coal requirements in FY20 at lower cost contributing to lower fuel cost in FY20 by 15% in RCCPL. The fuel prices have moderated during FY20 as compared to FY19. On an overall basis, the company has managed to procure fuel at ~12% lower price in FY20 as compared to FY19. However, partial dependence on open markets exposes the company to the risk of price fluctuations.

This apart, the freight cost also forms one of the major cost components which are co-related to crude prices, which in turn are directly linked with the overseas crude price variations. Hence, the Company remains exposed to the risk arising out of the fluctuation in the prices of the crude in future. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials or the crude cost without a corresponding movement in the price of the cement can affect the profitability of the company.

Project risk associated with Capex in BCL and RCCPL

BCL is adding clinker capacity at its Chanderia unit by 0.5 MTPA at a project cost of around Rs. 157 crore to be funded by debt equity mix of 2:1. As on March 31, 2020 the company has already incurred Rs.79 crore funded through internal accruals. The project is expected to get completed by Feb 2021.

BCL has been allotted two coal mines in Madhya Pradesh (Bikram and Brahmapuri blocks) in the auction conducted by Coal ministry in December 2019. The company has incurred around Rs. 10 crores in the development of the coal blocks till March 31, 2020 and expects to spend further till FY23. The coal blocks are expected to bring substantial savings from FY26 onwards, when the extractions from the blocks are at full capacity. Apart from the clinker plant in Chanderia amounting to around Rs.157 crore, on an overall basis BCL expects to spend Rs.600 crore to set up 1) above mentioned 2 coal mines,

2) replacing a boiler in Chanderia at a cost of Rs.70 crores, 3) modernization of Durgapur Cement works and 4) sustenance capex, funded through debt equity mix of 2:1.

Apart from capex in BCL, the group is also expanding its facilities in RCCPL. RCCPL is in the process of setting up a 3.89 MTPA of integrated cement plant (including 2.68 MTPA clinker capacity, 40MW CPP & 10-11 MW WHRS power plant) at Mukutban in Maharashtra (close to Butibori). The work on the project has commenced in January 2019 and is likely to be completed by June 2021. The total capital outlay of the project is expected to be around Rs.2,500 crore to be funded by debt component of Rs.1625 crores (already tied up) and internal accruals for balance amount (~65% of internal accruals has already been incurred till March 2020). Till March 31, 2020, company has already incurred Rs.1125 crores (45% of expected cost) funded through debt of Rs.542 crore and internal accruals of Rs.583 crore. Financial closure has been achieved.

In addition to above, RCCPL is expanding its cement capacity at Kundanganj plant from 2 MTPA to 3.2 MTPA at a total project cost of Rs.285 crore to be funded by Debt of Rs.190 crore and Internal accruals of Rs.95 crore. The project was earlier expected to get operational in FY21-22. However, owing to the current situation the management is expecting commissioning date to be around October 2022. Till March 2020, company has incurred Rs.142 crore funded through internal accruals. Financial closure has been achieved.
With the said additional capacity expansion, the group's total cement installed capacity is expected to go up to 20.78 MT from the existing 15.58 MT and the group will be able diversify its existence from Central to Central and Western regions. Both the projects are eligible for subsidy incentives which will cover large part of the investment, receipts of which would remain key rating sensitivity.

In order to meet its coal requirement RCCPL is expanding its coal extraction capacity at Sial Goghri plant from 1 lac MTPA to 3 lac MTPA in phases till FY23 at a project cost of Rs.150 crore to be funded by debt equity mix of 2:1. Till March 31, 2020, company has incurred total cost of Rs.57 crore which has been funded through internal accruals. The consumption from the mines has been raised from 1.05 lakh ton in FY19 to 1.67 lakh ton in FY20.

Timely execution of the above mentioned projects without any cost over-run and any further large debt ridden capex will remain key rating sensitivities.
Although the upcoming debt laden projects mainly in RCCPL will keep the capital structure under pressure to an extent, however the debt repayment for these projects have been structured in such a way that existing loans are substantially repaid before ballooning repayment for new projects begin.

Cyclicality 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.

Impact of Covid-19 Pandemic on BCL & RCCPL
During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments from March 22, 2020. Consequently the manufacturing and sales operations of BCL and RCCPL were impacted due to such lockdown. The operations have been commenced in a phased manner post second week of April 2020 after conforming to the guidelines of the regulatory authorities. While sales and profitability of the quarter were adversely impacted due to the lockdown, the management has not been able to ascertain the exact impact thereof. As per the management, no material impact is expected due to Covid-19 on the carrying value of assets and liabilities as on March 31, 2020.

Liquidity - Comfortable
During 12 months ended March 2020, BCL's average month end fund based utilization has been around 1.52% and that of RCCPL stood at 25.61% with unutilized line of credit standing at Rs.256 crore & Rs.200 crore respectively as on March 31, 2020; thus, indicating sufficient liquidity cushion. On consolidated level, liquid investment/unencumbered cash & bank balance stood at Rs.1087.28 crore as on March 31, 2020. Liquidity in hand will be utilised to a certain extent to meet capex expenses to the extent of Rs.700 crores over next three years. Consolidated GCA stood at Rs.976.61 crore in FY20- vis-à-vis debt repayment obligation of Rs.400.77 crore. In FY21, the consolidated debt repayment obligation is Rs. 529.33 crore which would be met through cash accruals.

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 rating also factors in the continuous group support by virtue of being part M.P Birla group. The consolidated financial

statement includes six more subsidiaries other than RCCPL which are not material. 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 and credit watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology – Cement Industry
Financial Ratios – Non-Financial Sector
Factoring linkages in Rating

About the Company
Birla Corporation Limited (BCL), incorporated in August 1919, 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 10 mn tonnes p.a. It is also engaged in Jute sales which contributed around 4.81% of BCL's consolidated sales in FY20. BCL sells cement under various well established brands, prominent being MP Birla Perfect Plus, MP Birla Unique, MP Birla Samrat, MP Birla Ultimate, MP Birla Ultimate Ultra, MP Birla Chetak, MP Birla Concrecem, MP Birla Multicem, MP Birla PSC Samrat with its key markets being Uttar Pradesh, Madhya Pradesh, Rajasthan, Haryana, Bihar, Bengal, Delhi, Gujarat and Maharashtra. BCL is currently under the control of Shri H. V. Lodha.

Brief Financials (Consolidated) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	6557.11	6948.35
PBILDT	957.27	1379.82
PAT	255.70	505.18
Overall gearing (times)	1.31	1.28
Interest coverage (times)	1.75	3.56

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	ISIN Number	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	350.00	CARE AA; Stable
Fund-based - ST-Bank Overdraft		-	-	-	10.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	50.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Term Loan		-	-	Sep 2028	921.48	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	833.00	CARE A1+
Debentures-Non Convertible Debentures		March 29, 2010	9.10%	20 March 2020	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE340A07068	October 13, 2010	9.05%	13 October 2020	130.00	CARE AA; Stable
Debentures-Non Convertible Debentures	INE340A07076 INE340A07084 INE340A07092	August 18, 2016	9.25%	14 September 2026	400.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	833.00	CARE A1+	-	1)CARE A1+ (20-Sep-19)	1)CARE A1+; Stable (04-Oct-18)	1)CARE A1+ (30-Aug-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Aug-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (20-Sep-19)	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)
4.	Debentures-Non Convertible Debentures	LT	130.00	CARE AA; Stable	-	1)CARE AA; Stable (20-Sep-19)	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)
5.	Fund-based - LT-Cash Credit	LT	350.00	CARE AA; Stable	-	1)CARE AA; Stable (20-Sep-19)	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)
6.	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A1+	-	1)CARE A1+ (20-Sep-19)	1)CARE A1+; Stable (04-Oct-18)	1)CARE A1+ (30-Aug-17)
7.	Fund-based/Non-fund-based-LT/ST	LT/ST	50.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (20-Sep-19)	1)CARE AA; Stable / CARE A1+ (04-Oct-18)	1)CARE AA; Stable / CARE A1+ (30-Aug-17)
8.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
9.	Fund-based - LT-Term Loan	LT	921.48	CARE AA; Stable	-	1)CARE AA; Stable (20-Sep-19)	1)CARE AA; Stable (08-Mar-19) 2)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)
10.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA; Stable	-	1)CARE AA; Stable (20-Sep-19)	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (30-Aug-17)

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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