Birla Corporation Limited

September 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1,322.16	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	873.00	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 Facilities	2,245.16 (Rupees Two Thousand Two Hundred and Forty Five crore and Sixteen Lakh only)		
Non-Convertible Debentures (Series III)	150.00 (Rupees One Hundred and Fifty crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
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, operational efficiency due to availability of sizeable mineral reserve and captive power plant, cost optimization offered by split units and proximity to various raw material sources, the rating also derives comfort from satisfactory financial performance in FY19 and Q1FY20, 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 prices, project risk associated with large debt funded capex in both BCL and RCCPL and cyclicality of the cement industry.

Timely completion of ongoing capex within the envisaged cost together with sustained operational and financial performance, the ability of the company to maintain/improve the existing liquidity in terms of free cash and liquid investment, timely receipt of subsidies and deriving benefit out of the large capex remains key rating sensitivities. Any increase in further debt funded capex would be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory track record in the cement industry

Operating successfully for more than ten decades, 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 Pvt Ltd . BCL on a standalone bases has an installed cement capacity of 10.00 MTPA per annum. In August 2016, BCL successfully acquired 100% equity stake in RCCPL to expand its cement business. BCL along with RCCPL have a group installed cement capacity of 15.58 MTPA.

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.

Multi-region presence with 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. Going forward, the group is going to increase its presence in Western regions. The group sells its products under well established brands viz MP Birla Perfect Plus, MP Birla

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

Unique, MP Birla Samrat, MP Birla Ultimate, MP Birla Ultimate Ultra, MP Birla Chetak, MP Birla Concrecem, MP Birla Multicem, MP Birla PSC, etc.

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

BCL's has backward integration by way of captive limestone mines and captive power plants (CPPs, solar, and WHRS). BCL has CPP & WHRS having aggregate capacity of 76.5 MW at Satna and Chanderia and a 1.5 MW solar plant at Satna ensuring continuous supply of power at much cheaper rates meeting around 80% of its power requirement of such location. Additionally, BCL is setting up 3MW solar project at Chanderia, Rajasthan and 1.2MW solar project at Satna, Madhya Pradesh at a project cost of ~Rs.20. cr which is expected to become operational by FY20. These backward integration measures are likely to continue to accrue benefits to BCL strengthening its financial risk profile.

RCCPL has sizeable mineral reserves spread across the country which in turn enable the entity to source backward integration for its present and future course of operations. The company has captive limestone mines having mineable reserves and a captive coal mine at Sial Ghogri, Madhya Pradesh with an extractable reserve of 5.69 MMT.

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 at Chittorgarh are met out of a mix of captive limestone at Chanderia and from purchases in 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.

Satisfactory financial performance in FY19 and Q1FY20

The consolidated performance of BCL during FY19 witnessed growth of around 13.8% to Rs. 6,557 cr vis-à-vis FY18 on the back of significant improvement in operational performance of RCCPL under the new management. The financial performance is primarily backed by improvement in the cement sales volumes which improved from 12.46 MT during FY18 to 13.62 MT in FY19 while the realisation witnessed rise of 4.9% & 9.08% in BCL & RCCPL respectively in FY19.

The capacity utilisation of the cement division for BCL and RCCPL improved from 80% and 81% respectively in FY18 to 89% in FY19. Consequently, PBILDT margin improved during FY19 to 14.60% vis-à-vis 14.24% in FY18 owing to increase in realisation in both BCL and RCCPL. The PAT margin also improved from 2.67% in FY18 to 3.90% in FY19 on account of lower interest cost.

In Q1FY20, BCL clocked consolidated turnover of Rs.1,883.81 crore and PAT of Rs.140.62 crore which is significant improvement vis-à-vis Q1FY19 owing to ramping up of operation in RCCPL.

The overall gearing improved from 1.40x as on March 31, 2018 to 1.31x as on March 31, 2019 due to accretion of profits despite increase in term loan. Further, healthy cash accrual and cash & unencumbered bank balance / liquid investments also provide additional support to the capital structure of the company.

Other debt indicators like interest coverage and total debt to gross cash accruals (GCA) improved during FY19 to 2.58x and 7.65x respectively vis-à-vis 2.17x and 9.34x in FY18 on account of accretion of profits. Despite improvement, the ratio of term debt to GCA remained high at 7.65x as on March 31, 2019. BCL's net overall gearing & net TD/GCA (adjusting for investments and unencumbered cash & bank balances) improved from 1.12x and 7.51x as on March 31, 2018 to 1.02x and 5.94x as on March 31, 2019. However, with the gradual increase in scale of RCCPL's operations, addition of captive power plants and increase in captive coal capacity, BCL at a consolidated level is expected to derive various synergy benefits which in turn can improve its existing operational and financial-risk profile further.

RCCPL's eligibility for various incentives results in cost advantages

RCCPL's operating manufacturing units in MP, UP & Maharashtra 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 FY19, accrued subsidy benefit stood at Rs.149.44 crore while RCCPL received around Rs.288.82 crore of subsidies thereby improving liquidity position. As on March 31, 2019, subsidy receivable stood at Rs.316.22 cr.

Key Rating Weaknesses

Volatility in input prices

Limestone along with power and fuel cost are the major cost components for the cement industry. Both BCL & RCCPL has captive limestone mines which provide advantage both in terms of cost and availability. However, for power, BCL currently meets ~80% of its power requirement of Satna and Chanderia through internal generation which would further increase to ~81% post commissioning of its 3MW solar power plant at Chanderia, Rajasthan and 1.2 MW solar plant at Satna, MP by FY20-end. On the other hand, RCCPL currently does not have any Captive Power Plant (CPP). As a result of the same, for the entire power requirements, RCCPL is solely dependent on the respective state grid which proves to be costly as against the cost per unit of power from CPP. Hence, the PBILDT margins are sensitive to any significant rise in the cost of power. RCCPL has been purchasing power at around @Rs. 6.50-7.50 per unit. In order to rationalise cost, RCCPL is setting up a 11 MW waste heat recovery based power plant at its Maihar Unit at a project cost of Rs.128 crore (Debt: Rs.83 crore & rest through internal accruals) out of which Rs.111 cr has already been incurred (funded by debt of Rs.71 crore and internal accruals of Rs.40 crore). The plant is expected to become fully operational by end Q3 FY 20. The project is expected to result in annual savings of around Rs.30-35 crores and meet 20% of overall power requirement of the company.

The company is also coming up with Solar Project of 11MW at Maihar location with a total project cost of Rs.45 crore (Debt-Rs.30 crore and Internal Accruals-Rs.15 crore). Till June 30, 2019, the company has incurred Rs.10 crore which has been funded through internal accruals. The said project is expected to meet 4-5% of total power requirement of the plant. It is expected to become operational by Q3FY20. Post-completion of both WHRS & solar power plant, ~25% of RCCPL's power requirement would be met through CPP.

Project risk associated with large debt funded capex in BCL & RCCPL

BCL is adding clinker capacity at its Chanderia unit by 0.5 MTPA at a project cost of Rs. 154 crore to be funded by debt of Rs.100 crore and remaining Rs.54 crore by way of internal accruals. Financial closure is in process. The project is expected to get completed by FY20-21.

BCL is also setting up 3MW solar project at Chanderia, Rajasthan and 1.2MW solar project at Satna, MP at a project cost Rs.20 cr which is expected to become operational by end of FY20. The entire project is to be funded through internal accruals.

Apart from capex in BCL, the group is also expanding its facilities in RCCPL. RCCPL is in the process of setting up a 3.88 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), in RCCPL. The work on the project has commenced in February 2019 and is likely to be completed by Q1FY22. The total capital outlay of the project is expected to be around Rs.2,450 crore to be funded by debt component of Rs.1625 crores (already tied up) and internal accruals of Rs.825 crores (around 60% has already been incurred).

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 proposed Debt of Rs.190 crore and Internal accruals of Rs.95 crore. Financial closure is under process. The project is expected to get operational in FY21-22.

With the said additional capacity expansion, the group's total cement installed capacity is expected to go up to 20.66 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 receipt of which would remain key rating sensitivity.

In order to meet its coal requirement, company 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 Rs.100 crore through proposed debt and Rs. 50 crore through internal accruals. Financial closure is in process for capex of FY 20. Till March 31, 2019, company has incurred total cost of Rs.12 crore which has been funded through internal accruals.

The company is also coming up with Solar Project of 11MW at Maihar location with a total project cost of Rs.45 crore (Debt-Rs.30 crore and Internal Accruals-Rs.15 crore). Financial closure is in process. Till June 30, 2019, the company has incurred Rs.10 crore which has been funded through internal accruals. It is expected to become operational by Q3 FY 20 .

Timely execution of the above mentioned projects without any cost over-run and any further 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.

Liquidity - Comfortable
During the 12 months ended June 2019, BCL's average fund based utilization has been around 0.65% and that of RCCPL stood at 1.84% with unutilized line of credit standing at Rs.300 crore & Rs.200 crore respectively; thus, indicating sufficient liquidity cushion. Consolidated GCA stood at Rs.592.70 crore in FY19 vis-à-vis debt repayment obligation of Rs.235.39 crore. In FY20, the consolidated debt repayment obligation is Rs.400.73 crore. The current ratio of the company on consolidated level stood at 1.40x in FY19.

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 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
CARE's methodology for cement companies
Financial Ratios – Non-Financial Sector
Factoring linkages in Rating

About the Company
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 7.09% of BCL's standalone sales in FY19. 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 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 (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	5760.35	6557.11
PBILDT	820.09	957.27
PAT	153.95	255.70
Overall gearing (times)	1.40	1.31
Interest coverage (times)	2.17	2.58

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

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-Cash Credit	-	-	-	350.00	CARE AA; Stable
Fund-based - ST-Bank Overdraft	-	-	-	40.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	50.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	June 2029	972.16	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	150.00	CARE AA; Stable
Debentures-Non	October 13, 2010	9.05%	13 October 2020	130.00	CARE AA; Stable

Convertible Debentures					
Debentures-Non Convertible Debentures	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	833.00	CARE A1+	-	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)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (30-Aug-17)	1)CARE AA; Stable (31-Jan-17) 2)CARE AA (09-Aug-16)
3.	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 AA (09-Aug-16)
4.	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)
5.	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)
6.	Fund-based - ST-Bank Overdraft	ST	40.00	CARE A1+	-	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)
7.	Fund-based/Non-fund-based-LT/ST	LT/ST	50.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-18)	1)CARE AA; Stable / CARE A1+ (30-Aug-17)	1)CARE AA; Stable / CARE A1+ (31-Jan-17) 2)CARE AA / CARE A1+ (09-Aug-16)
8.	Fund-based - LT-Term Loan	LT	972.16	CARE AA; Stable	-	1)CARE AA; Stable (08-Mar-19) 2)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)
9.	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)

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. Punit Singhania
Contact no: 033-4018 1620
Email ID: punit.singhania@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no.: 033-4018 1607
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**