RCCPL Private Limited
(erstwhile Reliance Cement Company Private Limited)
October 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2,261.99 (Reduced from 2,289.83)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)**
Short-term Bank Facilities	200.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long-term Bank facilities@	290.00	**CARE AA (SO); Stable ([Double A (Structured Obligation); Outlook: Stable]**	**Reaffirmed**
Total facilities	**2,751.99 (Rupees Two Thousand Seven Hundred and Fifty One crore and Ninety Nine lakhs only)**		

Details of instruments/facilities in Annexure-1

@Based on credit enhancement in the form of Unconditional & Irrevocable corporate guarantee from Birla Corporation Limited (rated CARE AA; Stable/CARE A1+)

Detailed Rationale & Key Rating Drivers

The revision of the ratings assigned to the bank facilities of RCCPL Private Limited (RCCPL) primarily takes into account the improvement witnessed in the operational performance of the company on the back of substantial increase in production during FY18 and Q1FY19. The ratings also continue to draw strength from the experienced management and operational team with long and satisfactory track record and diversified operations, operational efficiency achieved due to availability of sizeable mineral reserve, cost optimization offered by split units and proximity of the project to various raw material sources, RCCPL's eligibility for various incentives which results in cost advantages and financial risk profile characterized by improvement in revenue during FY18 and Q1FY19. However, the ratings take into cognizance the leveraged capital structure of RCCPL. On the other hand, the ratings continue to be constrained by volatility in input prices, project risk associated with Capex at Mukutban and cyclicality of the cement industry.

Ability of the company to maintain profitability while scaling up operation without any further deterioration in capital structure, timely execution of capex without any cost over-run and timely receipt of subsidies will remain remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management and operational team with long and satisfactory track record and diversified operations

Incorporated in August 2007, RCCPL is engaged in the manufacturing of cement with an installed capacity of 5.58 MTPA. In August 2016, BCL acquired entire shareholding of RCCPL from Reliance Industries Limited (RIL). Subsequently, RCCPL became a wholly owned subsidiary of BCL, an entity with more than nine decades of operational experience. With the acquisition, the aggregate capacity of the group has gone up to 15.58 MTPA.

RCCPL, after being taken over by BCL has almost the same operational team whereas the management team has underwent changes wherein the existing experienced management team of BCL has taken over the control. The new management team has decades of experience in the cement industry. Further, healthy cash and liquid investment at group level provides financial flexibility and supports liquidity position of the group.

Operational efficiency due to availability of sizeable mineral reserve

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 a mineable reserves of 1,091 MM Tons and a captive coal mine at Sial Ghogri, Madhya Pradesh with an extractable reserve of 5.69 MMT. Limestone is the key raw material in the manufacturing of cement.

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

RCCPL has its operational units spread across Madhya Pradesh, Uttar Pradesh and 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

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

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 and then the clinker requirements of the two grinding units are met from the Maihar unit. Further, other raw materials are also located in close proximity to the project sites which in turn enables the entity to optimize its cost.

Improvement in operational performance marked by substantial increase in production during FY18 and Q1FY19
RCCPL's production facilities are newly set up and are equipped with latest technologies. The company has witnessed significant improvement in its capacity utilization (CU) during FY2018 despite unfavorable market conditions. The CU during FY18 stood at 78.7% as against 63.7% in FY17. The CU further increased to 94% during Q1FY19 vis-à-vis 80% during Q1FY18.

RCCPL's eligibility for various incentives results in cost advantages
The operating manufacturing units of RCCPL 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 company has received around Rs.241 crore of subsidies out of accrued benefit of Rs.533 crore as on June 30, 2018. 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.

Financial risk profile characterized by improvement in revenue during FY18 and Q1FY19; gearing continues to remain high
The operating income of the company witnessed significant growth in FY18 vis-à-vis FY17 primarily on the back of improvement in the capacity utilization which has further continued to improve in Q1FY19. Consequently, the cement sales have improved from 3.57 MT in FY17 to 4.51 MT in FY18. On the other hand, the cement prices in FY18 have remained at the level of FY17.
Despite increase in scale of operations during FY18, 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 coupled with rake availability issues. During FY18, RCCPL reported PAT of Rs.190.92 crore vis-à-vis loss of Rs.1373.51 crore during FY17 which was incurred due to write off of the investment in Reliance Concrete Private Limited (Rs.1,403 crore) which was a strategic investment of the former shareholder.
Despite improvement during FY18, the overall gearing of the company continued to remain on the higher side and stood at 2.50x as on March 31, 2018 (3.21x as on March 31, 2017). Furthermore, the ratio of total debt to GCA stood at 10.28x as on March 31, 2018, but, with further increase in scale of operations and improvement in overall financial risk profile, such ratio is expected to improve. On the other hand, the upcoming debt laden project at Mukutban is likely to keep the capital structure under pressure to an extent.

Key Rating Weaknesses
Volatility in input prices
Limestone along with power and fuel cost are the major cost components for the cement industry. RCCL has captive limestone mines which provide advantage both in terms of cost and availability. However, the company does not have any Captive Power Plant (CPP) for power. Consequently, the company is solely dependent on the respective state grid for the entire power requirement 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. The company is in the process of setting up 11 MW waste heat recovery based power plant at its Maihar Unit which is likely to be commissioned by Q1FY20.

Project risk associated with Capex at Mukutban
RCCPL is in the process of setting up a 4 MTPA of integrated cement plant at Mukutban in Maharashtra (close to Butibori). The work on the project is expected to commence 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.2,450 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 19.58 MT from the existing 15.58 MT and the group will be able diversify its existence from Central to Central and Western regions. The project is eligible for subsidy incentives which will cover large part of the investment. Timely execution of the project without any cost over-run will remain a key rating sentivity.

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

Analytical approach: Standalone. However, parentage of Birla Corporation Limited is also factored in as RCCPL is the wholly owned subsidiary of BCL and BCL has extended its corporate guarantee to a portion of RCCPL's outstanding term-liabilities obligations.

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
RCCPL Private Ltd (RCCPL; erstwhile Reliance Cement Company Private Limited) was incorporated in 2007 and is engaged in manufacturing of cement with major presence in Madhya Pradesh, Uttar Pradesh & Maharashtra. RCCPL's aggregate installed cement capacity is of 5.58 MTPA. The company was initially a wholly owned subsidiary of Reliance Infrastructure Limited (RIL). However, w.e.f. from August 22 2016, Birla Corporation Limited (BCL) took over 100% shares of RCCPL held by RIL to expand its existing operations, market presence and gain synergies as apart from its cement manufacturing facilities. RCCPL manufactures both Pozzolona Portland Cement (PPC) and Ordinary Portland Cement (OPC) under the brand 'MP Birla Perfect'.

Financials of RCCPL Private Limited (Standalone)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1658.37	2122.58
PBILDT	426.96	469.10
PAT	(1373.51)	190.92
Overall gearing (times)	3.32	2.61
Interest coverage (times)	1.84	2.09

A: Audited

Background of the Guarantor – Birla Corporation Limited (BCL)
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.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not Applicable
Rating History for 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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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 2028	1652.51	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	December 2028	290.00	CARE AA (SO); Stable
Fund-based - LT-Term Loan	-	-	December 2028	159.48	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	200.00	CARE A1+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	450.00	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 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.	Fund-based - LT-Term Loan	LT	1652.51	CARE AA-; Stable	1)CARE A+; Stable (17-May-18)	1)CARE A; Stable (30-Aug-17)	1)CARE A-; Positive (18-Jan-17)	1)CARE BBB+ (Under Credit Watch) (18-Feb-16)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Jan-17)	1)CARE A+ (SO) (Under Credit Watch) (18-Feb-16)
3.	Fund-based - LT-Working Capital Limits	LT	450.00	CARE AA-; Stable	1)CARE A+; Stable (17-May-18)	1)CARE A; Stable (30-Aug-17)	1)CARE A-; Positive (18-Jan-17)	1)CARE BBB+ (Under Credit Watch) (18-Feb-16)
4.	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+; Stable	1)CARE A1+ (17-May-18)	1)CARE A1 (30-Aug-17)	1)CARE A2+ (18-Jan-17)	-
5.	Fund-based - LT-Term Loan	LT	290.00	CARE AA (SO); Stable	1)CARE AA (SO); Stable (17-May-18)	1)CARE AA (SO); Stable (30-Aug-17)	1)CARE AA (SO); Stable (18-Jan-17)	-
6.	Fund-based - LT-Term Loan	LT	159.48	CARE AA-; Stable	1)CARE A+; Stable (17-May-18)	1)CARE A; Stable (30-Aug-17)	1)CARE A-; Positive (18-Jan-17)	-

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