

September 17, 2014

CARE REAFFIRMS THE RATING ASSIGNED TO NCD ISSUE OF ULTRATECH CEMENT LIMITED

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Remarks
Non-Convertible Debenture issue	24.00 (reduced from 500.00)	CARE AAA (Triple A)	Reaffirmed

Rating Rationale

The rating continues to derive strength from the prominent parentage (viz., Aditya Birla group), UltraTech's leading market position in India with well-diversified geographical presence and high brand recall as well as its highly efficient operations. Further, the rating is supported by healthy financial risk profile of UltraTech, marked by strong capital structure, healthy cash accrual generation leading to substantial surplus cash balance and high financial flexibility. The rating also factors in completion of acquisition of the Gujarat Cement Unit (GCU) of Jaypee Cement Corporation Ltd (JCCL) by UltraTech.

Completion of the ongoing expansion programme within the envisaged cost along with timely ramp up of the new capacities and maintaining profitability in the scenario of over-capacity and rising input costs in the Indian cement industry are the key rating sensitivities.

Going forward with the pace of capacity addition slowing down and demand expected to improve gradually, UltraTech would benefit from the revival of industry as it will have additional capacity in place by the time growth stabilises.

Recent development**Completion of acquisition of GCU of JCCL**

Recently, UltraTech completed the acquisition of the GCU of JCCL, by way of a demerger, and the scheme of arrangement became effective from June 12, 2014. As part of GCU acquisition at around Rs.3,800 crore, UltraTech repaid external debt of the acquired unit of Rs.1,806 crore and inter-corporate deposits of Rs.1,840 crore extended to JCCL by Jaiprakash Associates Ltd (the holding company of JCCL). Further, UltraTech allotted equity shares aggregating around Rs.30 crore to the equity and preference shareholders of JCCL towards consideration.

The GCU, comprising integrated cement unit at Sewagram (Kutch) and grinding unit at Wanakbori (near Ahmedabad), has a combined cement capacity of 4.8 million tonnes per annum (mtpa). The acquisition also includes captive coal-based power plant (57.5 MW capacity), captive jetty, cement bag manufacturing unit, desalination plant meeting water requirement and available land area of 5,479 Ha with limestone reserves of around 500 million tonnes (sufficient for 90 years at current capacity). With this acquisition the cement manufacturing capacity of UltraTech stands at about 59 mtpa in India and 62 mtpa globally.

GCU acquisition expanded UltraTech's production base in Gujarat enhancing its local market access as well as coastal access to cater to other regions of India and exports. This is expected to help the company maintaining its leadership position in Indian cement industry. Profitability of the GCU is expected to improve in medium-term as a result of envisaged synergy gains from UltraTech's brand and operational expertise.

Background

UltraTech was formed when Grasim Industries Ltd (GIL, rated CARE AAA/A1+) acquired majority ownership and management control in L&T Cement Ltd (a 100% subsidiary of Larsen & Toubro Ltd) in 2004. GIL and other promoter group companies hold over 60% stake in UltraTech.

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

UltraTech is the largest cement company in India with current production capacity of about 59 mtpa and about 62 mtpa globally including capacities at UAE, Bahrain and Bangladesh. The company, with its pan-India presence, has around 17% of market share. UltraTech's products include ordinary portland cement, portland pozzolana cement, ready-mix concrete and white cement. UltraTech is also India's largest exporter of cement & clinker.

UltraTech posted consolidated total income of Rs.21,571 crore with a PAT of Rs.2,213 crore in FY14 (refers to the period April 1 to March 31) as compared to a total income of Rs.21,275 crore with a PAT of Rs.2,688 crore in FY13. Further, the company registered a total income of Rs.6,032 crore and a PAT of Rs.628 crore in Q1FY15 as compared to a total income of Rs.5,296 crore and a PAT of Rs.669 crore in Q1FY14.

Analyst Contact

Name: Mr Puneet Bhatia

Tel: 022-6754 3453

Email: puneet.bhatia@careratings.com

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CONTACT

Head Office Mumbai

Mr. D.R. Dogra

Managing Director
 Mobile: +91-98204 16002
 E-mail: dr.dogra@carerating.com

Mr. Rajesh Mokashi

Dy. Managing Director
 Mobile: +91-98204 16001
 E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi

Vice President - Bank Loan & Instrument Rating
 Mobile: +91-9819009839
 E-mail: meenal.sikchi@carerating.com

Mr. Ankur Sachdeva

Vice President - Bank Loan & Financial Services
 Mobile: +91-9819698985
 E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

Other Office:

503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400 069
 Tel: +91-22-6144 3456 | Fax: +91-22-6144 3556

AHMEDABAD
Mr. Mehul Pandya

32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-98242 56265
 Tel: +91-79-4026 5656
 E-mail: mehul.pandya@careratings.com

JAIPUR
Mr. Rahul Jain

304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 93149 21496
 Tel: +91-141-402 0213 / 14
 E-mail: rahul.jain@careratings.com

BENGALURU
Mr. Dinesh Sharma

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91-99000 41975
 Tel: +91-80-4115 0445, 4165 4529
 E-mail: dinesh.sharma@careratings.com

KOLKATA
Ms. Priti Agarwal

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH
Mr. Sajan Goyal

2nd Floor, S.C.O. 196-197, Sector 34-A,
 Chandigarh - 160 022.
 Cell: +91 99888 05650
 Tel: +91-172-5171 100 / 09
 Email: sajan.goyal@careratings.com

NEW DELHI
Ms. Swati Agrawal

13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI
Mr. V Pradeep Kumar

Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE
Mr. Rahul Patni

9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-78754 33355
 Tel: +91-20- 4000 9000
 E-mail: rahul.patni@careratings.com

HYDERABAD
Mr. Saikat Roy

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Tel: +91-40-4010 2030
 E-mail: saikat.roy@careratings.com

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