

Utkal Alumina International Limited

June 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities – Term Loan	2,424.00	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable to Negative
Long/Short Term Bank Facilities –Fund Based/ Non Fund Based	650.00	CARE AA+; Negative /CARE A1+ (Double A Plus; Outlook: Negative / A One Plus)	Reaffirmed; Outlook revised from Stable to Negative
Total Facilities	3,074.00 (Rupees Three Thousand and seventy four crore Only)		
Proposed Commercial Paper (CP) Issue (Standalone)	300.00 (Rupees Three Hundred Crore Only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Utkal Alumina International Limited (UAIL) takes into consideration promoters' long standing experience in aluminium industry, business integration within overall expansion plans of Hindalco, presence of an assured off-take agreement with Hindalco for the entire production of alumina as well as availability of captive source of raw material viz. bauxite. The ratings continue to derive strength from UAIL's comfortable capital structure owing to prepayment of long term debt and significant improvement in its profitability margins. The rating strengths are however tempered by susceptibility of profitability to volatile metal prices and increase in raw material prices such as caustic soda, coal, coal tar pitch etc.

Rating Sensitivities

Positive Factors

- Strengthening of business risk profile driven by significant improvement in profitability margins.

Negative Factors

- Deterioration in financial risk profile of parent, Hindalco Industries Limited.
- Increase in overall gearing owing to any sizeable debt funded capital expenditure.

Outlook: Negative

CARE has revised the rating outlook assigned to the bank facilities of UAIL from 'stable' to 'negative', post similar rating action on the ratings of parent, Hindalco industries Limited (HIL; Rated CARE AA+; Negative/CARE A1+) with whom UAIL has significant operational linkages.

The revision in the rating outlook of HIL reflects CARE's belief that the operating profits are likely to remain subdued in the short to medium term period on the back of an expectation of a lower demand for commodities, which is likely to impact sales volumes and net sales realizations for HIL. Furthermore, CARE also factors in the increase in debt levels owing to debt funded acquisition of Aleris Corporation, which will result into elevated leverage ratios for HIL in near future. Outlook may be revised to Stable in case of timely recovery in demand leading to improvement in the operating performance of the company and improvement in overall gearing due to significant repayment of debt.

Detailed description of the key rating drivers

Key Rating Strengths

Reputed promoter group; professionally qualified management with high project execution capabilities

UAIL is a 100% subsidiary of Hindalco Industries Limited (HIL) and by virtue of being part of the group; the company receives continuous support from the holding company. The company is led by professional and experienced management that has built a successful track record in the industry.

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

Backward integration - Captive source of raw material

UAIL requires about 5 mtpa of bauxite annually. UAIL has obtained the mining lease for the Baphlimali bauxite mines from OMCL (Odisha Mining Corporation Limited). The estimated reserves of the mines are expected to be sufficient to feed the existing capacity of 1.5 mtpa alumina refinery for over 25 years. Majority of the raw material is transported through conveyor belt from bauxite mines to UAIL plant, resulting into logistics related cost savings and convenience as against transportation through traditional modes. The rating derives strength from complete backward integration, ensuring a low cost and assured supply of raw material for UAIL.

Business integration with Hindalco's overall expansion plans

Hindalco has successfully ramped up two greenfield smelter plants, Mahan Aluminium smelter (at Bhargwan, MP) and Aditya Aluminium (at Rayagada, Odisha), with a capacity of 360 ktpa each. UAIL's alumina refinery is providing alumina to the above smelters. The company has entered into an agreement with Hindalco for the same, indicating stable revenue and visible cash flows for UAIL and corresponding savings on the selling and marketing costs. The entire output of UAIL would be utilized captively for the aluminium smelters of Hindalco.

Key Rating Weaknesses**Highly susceptible to volatility in raw material and finished good prices**

Global aluminium prices (London Metal Exchange - LME), continue to remain highly volatile on the back of trade war situation, geopolitical events and the state of the global economy. Global alumina prices are indirectly derived from its strong linkages to the LME aluminium traded price. Furthermore, on the raw material front, alumina manufacturing requires significant power usage and hence volatility in power cost (owing to coal prices) as well has a significant barring on the cost of production, thereby the profitability of alumina producers.

Ongoing expansion

UAIL has undertaken brownfield capacity expansion of 500 KT and it is expected to be completed by FY21.

Industry Outlook

Aluminium prices are likely to remain under pressure due to uncertainty related to global commodity market. Aluminium is widely used in power sector in India. Slowdown in manufacturing activities due to lockdowns across the country will hit demand for the metal. Demand from other user industries like automobiles is also expected to remain muted as major automobiles manufacturers have already shutdown their plants due to lower demand and lockdown measures announced by government.

Liquidity indicator: Strong

Liquidity is marked by strong accruals against negligible repayment obligations due to prepayment of term loans and free cash and liquid investments as on March 31, 2019 to the tune of Rs.1,588 crore. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach:

CARE has adopted a standalone approach. However, the strong operational and financial linkages with its parent (Hindalco Industries Ltd) have been considered.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Short Term Instruments](#)

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

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

About the Company

UAIL, a wholly-owned subsidiary of Hindalco was incorporated in 1993. Hindalco (rated 'CARE AA+; Stable /CARE A1+'), the flagship metals company of the Aditya Birla group, is one of the largest aluminium manufacturer in India. UAIL is a strategically important for Hindalco, as the former provides backward integration. UAIL has implemented a fully integrated 1.5 mntpa alumina refinery project in Rayagada, Odisha. Presently, the plant is operating at its designed capacity. Further, UAIL has a firm off-take arrangement with Hindalco for the alumina produced. Alumina manufactured at this plant is sold to Hindalco for its projects - Mahan Aluminium smelter and Aditya Aluminium smelter located in Madhya Pradesh (MP) and Odisha respectively.

UAIL

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,808.68	4,140.92
PBILDT	1170.05	2306.11
PAT	561.29	1425.10
Overall gearing (times)	0.42	0.35
Interest coverage (times)	3.66	8.31

A: Audited; Financials have been reclassified as per CARE standards

Hindalco Industries Ltd (consolidated)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,16,148	1,31,371
PBILDT	14,842	16,294
PAT	6,083	5,495
Overall gearing (times)	1.68	1.62
Interest coverage (times)	3.80	4.31

A: Audited; Financials have been reclassified as per CARE standard

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/Non-fund-based-LT/ST	-	-	-	650.00	CARE AA+; Negative / CARE A1+
Fund-based - LT-Term Loan	-	-	September 2030	2424.00	CARE AA+; Negative
Commercial Paper	-	-	-	300.00	CARE A1+

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.	Fund-based/Non-fund-based-LT/ST	LT/ST	650.00	CARE AA+; Negative / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (23-Oct-19)	1)CARE AA+; Stable / CARE A1+ (06-Jul-18)	1)CARE AA; Stable / CARE A1+ (26-Sep-17)
2.	Fund-based - LT-Term Loan	LT	2424.00	Withdrawn; Stable	-	-	1)Withdrawn; Stable (06-Jul-18)	1)CARE AA+ (SO); Stable (26-Sep-17)
3.	Commercial Paper	ST	300.00	CARE A1+	-	1)CARE A1+ (23-Oct-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (11-Jul-17)
4.	Fund-based - LT-Term Loan	LT	2424.00	CARE AA+; Negative	-	1)CARE AA+; Stable (23-Oct-19)	1)CARE AA+; Stable (06-Jul-18)	-

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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About CARE Ratings:

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