Birla Corporation Limited

July 3, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	671.48 (Enhanced from 624.48)	CARE AA; Negative	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	793.00 (Reduced from 883.00)	CARE AA; Negative / CARE A1+	Reaffirmed; Outlook revised from Stable
Non Convertible Debentures	250.00	CARE AA; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings to the bank loan facilities and instruments of Birla Corporation Limited (BCL), while the outlook stands revised to 'Negative' from 'Stable'. The rating assessment continues to consider BCL's healthy competitive position in grey cement manufacturing supported by installed capacities of 20 MTPA majorly spread across Central, Northern, Western and Eastern Regions of India. Its strong market position is amplified by the company's significant penetration in Central, followed by Eastern and Northern India regions. The company has established a healthy brand recall of its cement products which is supported on ground by its distribution network leading to higher retail trade mix. Further, the cost competitiveness is driven by the presence of captive limestone mines, coal block mines as well as power generation with a mix of thermal and green power. Additionally, high proportion of blended cement reduces its fuel requirements.

These strengths are partially tempered by the moderate operating efficiencies driven by high fuel requirements in Satna (Madhya Pradesh). However, the efficient units under RCCPL support the profitability margins at consolidated level. The moderate operating profitability of the company was further significantly impacted by the adverse volatility in the input costs, particularly, power & fuel, along with losses in Mukutban (Maharashtra) plant in its initial year of operation i.e. in FY23. Consequently, the debt coverage metrics, which were already moderate due to the partially leveraged capital structure, were significantly impacted in FY23 on account of subdued profitability.

The revision in Outlook from 'Stable' to 'Negative' is largely driven by the significant moderation in the debt coverage metrics. Both, the profitability margins and the solvency ratios, which already were adversely impacted in FY22, had incrementally weakened in FY23. Improvement in operating profitability and consequently debt coverages metrics are expected in ongoing fiscal i.e. FY24, majorly due to softening of power & fuel costs as well as gradual ramp up in operations of Mukutban unit. However, the magnitude of the same remains a key monitorable as less than expected improvement in the operating profitability would lead to sustained moderation in the solvency and coverage indicators which will trigger the negative sensitivity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its revenues and/or profitability margins leading to improvement in debt protection metrics, particularly net debt/PBILDT of less than 1.5 times and return on capital employed to above 15% on a sustained basis may trigger a rating upgrade.

Negative factors

- Continued moderation in profitability margins and/or any major new debt programme leading to continued net debt to PBILDT levels of more than 3.50x.
- Any major debt programme either for capital expenditure or acquisition or to fund incremental working capital requirements leading to expectation of moderation in capital structure.
- Any significant deterioration in liquidity from the current levels, particularly reduction in cash & cash equivalents (including current investments) below Rs.300 crore.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) takes a consolidated view of the parent i.e. BCL and its subsidiaries owing to significant business, operational and financial linkages between the parent and the subsidiaries. The details of the subsidiaries which have been consolidated as on March 31, 2023 are given in Annexure - 6.

Outlook: Negative

The 'Negative' outlook signifies the continued deterioration in the solvency position of the company over the last two fiscal years through FY23 driven by deterioration in profitability margin which if fail to revert back to targeted goals sustainably, particularly net debt/PBILDT of 3.50x may deteriorate the credit profile of BCL. Continued weakness in operating profitability or inability to

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

improve the net debt to PBILDT may lead to rating downgrade. Conversely, improvement in operating profitability as envisaged and/or substantial reduction in existing debt may leading to revision of outlook to 'Stable'.

Detailed description of the key rating drivers:

Key strengths

Healthy competitive position supported further by diversified geographical profile: BCL is among the oldest cement manufacturing companies in India and over the years established a strong presence in cement markets of Central, Eastern and Northern regions of India. The company's standalone cement capacity of 10.19 MTPA is supplemented by 9.81 MTPA capacity of RCCPL, wholly owned subsidiary of BCL. The company derives about 50%-60% of its sales volumes from Central India dedicated 9.35 MTPA of cement capacity in the region, followed by Eastern region i.e. 19%-23% and Northern region 15%-17%. In May 2022, the company started operations of its Mukutban plant of 3.90 MTPA located in Maharashtra which would largely cater to proximate regions of Vidharba, Marathwada and Khandesh present in Maharashtra and adjoining markets of Madhya Pradesh along with Nizamabad, Telangana as well as adjoining markets of South Gujarat. This is expected to incrementally diversify its revenue profile with expected increase in penetration in Maharashtra as the capacity ramps up. The benefit of the same is already accruing with the company growing its cement volumes by 11% year on year (Y-o-Y) to 15.73 MT in FY23. This supported by growth in blended realization growth of 5% Y-o-Y to Rs.5409 per tonne led to growth in total operating income by 16% Y-o-Y to Rs.8687 cr in FY23. The revenue growth is largely driven by healthy demand witnessed in residential real estate as well as government's push towards infrastructure. However, incremental growth was also from the gradual ramping up of Mukutban plant. With general elections coming in May 2024, there is expectation of huge push towards infrastructure and thus, the cement industry is expected to clock high single digit growth in FY24 as well. Aided by this and continued ramping up of Mukutban facility, the company is expected to grow its volume by 12%-15% in FY24. No major price hikes are expected amidst intense competition amidst existing players and significant softening of input prices. Further, the realizations in targeted regions from Mukutban facility are relatively lower thus slight moderation in the prices is expected.

Large retail trade mix driven by healthy brand recall and established distribution network: Despite being a commoditized business, BCL has been able to establish its brand over the years with flagship cement brand being "MP Birla Cement". M.P Birla Perfect Plus, Samrat, Samrat Advanced, Rakshak, etc. are some of its premium brands. The company has total 11 brands of cement with varied characteristics. The company had reported distribution network of more than 300 sales promoters and 9800 dealers and 37500 sub-dealers which significantly supports the on-ground sales of BCL's products. Further, the company largely sells blended cement which is consumed by retail trade segment. Accordingly, the company's retail trade mix is above 75% in the overall volumes. Considering its significant push on establishing its brand, the company has also been able to maintain its premium products to 51% of the trade sales.

Integrated units with captive limestone mines, coal mines and power generation allowing cost competitiveness:
Integrated units with captive limestone reserves, coal mine blocks, captive power sources supported by split grinding units allow company to remain cost competitive. The company has limestone mines near to its Satna, Chanderia, Maihar and Mukutban plant which met 84% of total limestone requirements in FY23. Further, during FY23, the currently operational coal mine provided about 25% of the company's fuel requirements in kiln. The company's Persoda limestone catering to Mukutban unit has also been operationalized which is expected to further reduce limestone requirements from outside. The company's Bikram coal mines in Madhya Pradesh is expected to run from H2FY24 which once fully operational would increase captive coal consumption to 38%-40% of its fuel requirements in kiln.
The company has multiple power sources having installed 94 MW captive thermal power plant, 43.50 MW of Waste Heat Recovery System (WHRS) and 36.20 MW of Solar plant which can manage more than 50% of its requirements. However, the company had largely utilized grid electricity in FY23 amidst surge in coal prices making captive thermal power generation expensive. The company commissioned WHRS unit in Mukutban which was largely operational from Q4FY23 which is expected to reduce power costs for the plant from FY24 onwards. Additional 5 MW of solar power plant has been commissioned in April 2023.

Industry Outlook: According to CARE Ratings, the current upcycle in infrastructure and real estate is expected to significantly boost cement demand. CARE Ratings predicts growth in cement volume by 8-9% in FY23, reaching 380-385 million tonnes (MT), and by FY25-end, reaching 440-450 MT. The macros of the cement industry remain stable in the long term, driven by demand from the housing sector, upcoming infrastructure projects as well as generous rural demand. The capex spree by the government on infrastructure and housing spend in the wake of the 2024 general election paints an encouraging picture of cement demand. The private capex is also expected to pick up gradually lending further support on the demand front. The cement players have also responded enthusiastically by announcing huge capacity addition over FY23- FY25. The robust capacity addition plans by players for FY23-FY25 in anticipation of demand growth and market share gains are expected to keep the industry's capacity utilization (grinding) under check, and they are unlikely to improve beyond 67-69% at the Pan-India level despite a better demand outlook.
CARE Ratings does not estimate any significant price hike-led realization growth coming through for the players that they were scouting for in the last fiscal. Few players will register growth in net realization which will be supported by a change in their product mix as was the case in FY23 as well.
Operating profitability improvement in FY24 will majorly be on account of cooling off in the input costs as improvement in the cement prices still looks beyond the horizon due to intensifying competition to gain market share and run for the capacity additions amongst players. However, any rebound in fuel prices remains a key monitorable.

Key weaknesses

Moderately leveraged capital structure and debt coverage metrics: The company has strong networth[2] as on March 31, 2023 (2022) at Rs. 3994.07 (Rs.4114 crore). However, capital structure is moderately leveraged. The debt funded projects have kept the company's capital structure moderately leveraged with overall gearing 1.27x (1.19x) as on March 31, 2023 (2022). Consequently, the debt coverage metrics are also moderate which were additionally impacted by subdued profitability in FY22 & FY23. The company's net debt to PBILDT moderated 2.91x in FY21 to 3.36x in FY22 and deteriorated to 5.54x in FY23. Similarly, interest coverage deteriorated to 2.33x in FY23 from 4.61 in FY22. Though, the company's profitability margin is expected to improve in FY24 with limited incremental debt, the extent of improvement remains key sensitivity factor.

Volatile input prices which adversely impacted moderate operating profitability in FY23: The company is exposed to commodity price risk arising out of fluctuation in prices of raw materials (gypsum, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for both the power generation to run its plants and as fuel for kilns. Since Q3FY22, there has been tremendous increase in the energy cost. Initially it was on account of pent-up demand after the world started opening up post multiple COVID-19 waves and vaccinations. However, the costs exacerbated with start of Russia-Ukraine war. Resultantly, the company's power & fuel cost per tonne rose from Rs.904 per tonne in FY21 to Rs.1143 per tonne in FY22 and significantly shot upto Rs.1508 per tonne in FY23. This is exacerbated by high fuel requirements in Satna (Madhya Pradesh) but controlled partly by 90% of blended cement in product mix which reduces clinker requirement. Higher coal prices also meant the company's power from captive thermal capacity turned more expensive than electricity from grid and accordingly company substituted captive thermal power to grid electricity. The freight cost also increased in FY23 on the back of increase in crude oil prices. Further, Indian Railways under its "Dynamic Pricing Policy – Levy of Busy Season Charge, Development Surcharge and Congestion Charge", will levy a 'busy season surcharge' of 15% on goods traffic from October 1, 2022. Accordingly, the freight cost per tonne increased from Rs.1041 per tonne in FY22 to Rs.1130 per tonne in FY23. Amidst this the low ramp up in clinker and cement capacity in Mukutban plant increased the variable cost per tonne which couldn't be recovered for large part of the year on account of depressed prices in the regions targeted by Mukutban plant.
Accordingly, the company's PBILDT per tonne (including other operating revenue) moderated to Rs.502 per tonne in FY23 from Rs.786 per tonne in FY22 and Rs.1008 per tonne in FY21. The company is expected to improve its PBILDT per tonne to around Rs.820 to Rs.840 per tonne in FY24 largely on account of significant softening of coal and pet coke prices followed by improvement in operating metrics of Mukutban plant.

PBILDT Loss in Mukutban, Expected to Turnaround in FY24: The operating profitability was further impacted significantly in FY23 on account of EBITDA loss in Mukutban unit. The low clinker and cement capacity utilization along with late operationalization of WHRS and captive limestone in Persoda mine significantly impacted the operating margins in FY23 apart from the surge in input costs. However, by the end of March 2023, the Mukutban unit turned EBITDA positive supported by increase clinker and cement capacity utilization with excess clinker transported to Durgapur unit in West Bengal. These operations rationalization and continued increase in cement volumes from Mukutban is expected to support revival of company's profitability in FY24 along with expectations of GST refund incentive expected to be accrued from H2FY24. Currently also the company saves in GST payments by utilizing the Cenvat credit available on the capital expenditure incurred for the Mukutban Project. However, CARE Ratings would continue to monitor the operational performance of Mukutban plant as any headwind in ramp up of operations may continue to keep the profitability margin of BCL subdued.

Cyclicality of the cement industry: The 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: Strong
BCL's strong liquidity is supported by moderate cash & cash equivalents along with adequate cushion between gross cash accruals (GCA) vis a vis repayment obligations and modest bank limit utilization as well adequate cash & cash equivalents (including liquid investments). The company has generated gross cash accruals of Rs.552 crore in FY23 which is expected to increase to Rs.900-Rs.1000 crore in FY24. The significant improvement is driven by improvement in profitability. Against this, the company has repayment obligations of Rs.491 cr. The repayment obligations would balloon to Rs.635 crore annual for FY25 and FY26 which is expected to be covered adequately by GCA.
The company has cash & bank balances of Rs.234 cr (Rs.207 cr) as on March 31, 2023 (2022) and liquid investments of Rs.457 cr (Rs.602 cr). Despite, the rise in working capital requirements due to increased power & fuel costs, the company modestly utilized its fund based working capital limits at 26% over the past 12 months through March 2023. The company also has non-current investments in listed companies (including M. P. Birla group companies) and bonds totalling to about Rs.410.53 cr as on March 31, 2023.

Environment, social, and governance (ESG) risks
The cement sector has a significant impact on the environment owing to higher emissions, generation of waste and consumption of water. Cement manufacturing process is energy intensive and its high dependence on natural resources, such as limestone, coal as key raw materials are the key reasons. Due to the nature of operations affecting local community and health hazards

[2] Networth excludes revaluation surplus

involved in cement manufacturing process, the sector also has a social impact. BCL has continuously focused on mitigating its environmental and social risks. CARE Ratings Limited (CARE Ratings) believes BCL's commitment to ESG will support its strong credit profile.
Few steps are as below -

1. BCL is Water Positive due to innumerable of efforts in water conservation, rainwater harvesting and reuse of treated wastewater.
2. BCL installed Solar Power Plants at different factories for increasing share of renewable power in captive power consumption.
3. The power of renewable energy and our dependence on solar power and waste heat recovery system increased in the FY22, to the tune of 21.77% of total power consumption as against 18.82% in the previous year.
4. Additionally, 3 MW of solar power capacity at Chanderia and Kundanganj units were commissioned in FY23 whereas 5MW solar was commissioned at Satna in April 2023. Investments were made to generate an additional 9 MW from waste heat recovery system at Mukutban which was largely operationalized Q4FY23.

Extensive planting of trees are carried out in and around mining, plants and residential areas. In FY2021-22, BCL plants received recognition for Energy Excellence and Sustainable Development. The Company received two National Awards in Energy Excellence & five National Awards in Sustainable Development. BCL mines received five star rating from Ministry of Mining, Govt. of India.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

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 20 MTPA as on March 31, 2023 (10.19 MTPA in BCL and 9.81 MTPA in RCCPL). BCL sells cement under various well-established brands, prominent being 'Birla Cement Samrat', 'Birla Cement Unique',MP Birla Perfect, MP Birla Perfect Plus etc. and 'Birla Cement Chetak' with strong presence in central, eastern and northern India. It is also engaged in Jute sales.
After the demise of Priyamvada Birla, wife of Madhav Prasad Birla, in July 2004, BCL was headed by Rajendra Singh Lodha. Following his death in October 2008, his son, Harsh Vardhan Lodha, took over the charge as the company's Chairman. However, the ownership of BCL is under legal dispute, being contested by Harsh Vardhan Lodha and the descendants of the Birla family. CARE Ratings will continue to monitor the developments in this regard.

BCL - Consolidated

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)*
Total operating income	7467.32	8687.45
PBILDT	1117.55	790.20
PAT	398.59	40.50
Overall gearing (times)	1.19	1.27
Interest coverage (times)	4.61	2.33

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
* Abridged financials
Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits and Creditors on LC

BCL - Standalone

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)*
Total operating income	4791.99	5443.66
PBILDT	487.98	268.84

PAT	202.92	45.40
Overall gearing (times)	0.39	0.28
Interest coverage (times)	4.85	2.51

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Abridged financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	**INE340A07092**	18-Aug-2016	9.25%	14 September 2026	50.00	CARE AA; Negative
Debentures-Non Convertible Debentures	**INE340A07084**	18-Aug-2016	9.25%	August 18, 2026	200.00	CARE AA; Negative
Fund-based - LT-Cash Credit		-	-	-	390.00	CARE AA; Negative
Fund-based - LT-Term Loan		-	-	September 2028	281.48	CARE AA; Negative
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	793.00	CARE AA; Negative / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	793.00	CARE AA; Negative / CARE A1+	-	1)CARE AA / CARE A1+ (04-Jul-22)	1)CARE AA; Stable / CARE A1+ (05-Jul-21)	1)CARE A1+ (07-Jul-20)

2	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jul-20)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)
4	Fund-based - LT-Cash Credit	LT	390.00	CARE AA; Negative	-	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)
5	Fund-based - ST-Bank Overdraft	ST	-	-	-	-	1)Withdrawn (05-Jul-21)	1)CARE A1+ (07-Jul-20)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	-	1)Withdrawn (05-Jul-21)	1)CARE AA; Stable / CARE A1+ (07-Jul-20)
7	Debentures-Non Convertible Debentures	-	-	-				
8	Fund-based - LT-Term Loan	LT	281.48	CARE AA; Negative	-	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)
9	Debentures-Non Convertible Debentures	LT	250.00	CARE AA; Negative	-	1)CARE AA; Stable (04-Jul-22)	1)CARE AA; Stable (05-Jul-21)	1)CARE AA; Stable (07-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure -6: List of subsidiaries which are consolidated

Name of companies/ Entities	% of holding
RCCPL Private Limited	100%
Birla Jute Supply Company Limited	100%
Talavadi Cements limited	98.01%
Lok Cements Limited	100%
Budge Budge Floor Coverings Limited	100%
Birla (Cement) Assam Limited	100%
M.P. Birla Group Services Private Limited	100%
AAA Resources Private Limited	Wholly owned step down subsidiary (RCCPL – 100%)
Utility Infrastructure & Works Private Limited	Wholly owned step down subsidiary (RCCPL – 100%)

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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