India Ratings & Research
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India Rating Revises Outlook on Nuvoco Vistas's Debt Instruments to Stable; Affirms NCDs at 'IND AA-'; Bank Loans at 'IND AA'; CP at 'IND A1+'

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India Ratings and Research (Ind-Ra) has taken the following rating action on Nuvoco Vistas Corporation Limited's (NVCL) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Perpetual non-convertible debentures (NCDs)*	-	-	-	INR3 (reduced from INR6)	IND AA-/Stable	Outlook revised to Stable; Rating affirmed
Fund/non-fund based working capital limits #	-	-	-	INR2.03	IND AA/Stable/IND A1+	Outlook revised to Stable; Rating affirmed
Proposed fund/non-fund based working capital limits				INR1.41	IND AA/Stable/IND A1+	Outlook revised to Stable; Rating affirmed
Commercial paper (CP)	-	-	Up to 365 days	INR5	IND A1+	Affirmed

* The details are provided in annexure below
#Limits are interchangeable between fund-based limits and non-fund-based limits

Analytical Approach

Ind-Ra continues to take fully consolidate NVCL and its 100% subsidiary, Nu Vista Limited (NVL; debt rated at IND AA/Stable), while arriving at the ratings on account of the strong operational and strategic linkages between them.

Subordinated Debt Rating Notched Down: The perpetual NCDs are subordinated debt. The rating of these NCDs reflects their loss-absorbing features and ability to cumulatively defer coupons payable. However, Ind-Ra has now revised its analytical treatment of the perpetual NCDs and considered the same as 100% debt given the relaxation of the replacement capital covenant and the likely exercise of the call option due in 2027.

Detailed Rationale of the Rating Action

The Outlook revision reflects the likelihood of a weaker-than-Ind-Ra-expected operating and financial performance in FY25, led by a fall in the sales realisations amid the increased competitive intensity and subdued demand, which could lead to a reduction in the absolute EBITDA during the year. While credit metrics are likely to remain healthy over the near-to-medium term, Ind-Ra believes the timing of NVCL's net leverage reducing to 2x on a sustained basis will be contingent on the recovery in the EBITDA as well as the company's expansion plans.

The affirmation continues to reflect NVCL's robust market position as a leading cement manufacturer in India with a strong presence in the underpenetrated eastern region. The company enjoys an established brand positioning and has been taking various initiatives to improve cost efficiencies, which is likely to aid the recovery in its EBITDA over the medium term. NVCL's net leverage reduced to 2.4x in FY24 (FY23: 3.6x), resulting in a comfortable credit profile.

List of Key Rating Drivers

Strengths

- Strong market position
- Demand likely to recover in 2HFY25 due to a strong presence in the underpenetrated eastern region
- Profitability likely to recover in FY26 with cost reduction initiatives
- Comfortable net leverage in FY24; further deleveraging dependant on EBITDA growth
- RMC business remains robust
- Moderate geographical diversification

Weaknesses

- Susceptibility to volatility in input prices and industry cyclicality

Detailed Description of Key Rating Drivers

Strong Market Position: NVCL's total capacity stood at 25 million tonnes (mnt) at FYE24 (FYE23: 23.8mnt). The company maintained its position as the fifth largest grey cement manufacturer in India at FYE24, according to Ind-Ra; while the future capacity share will be contingent on the expansion plans, Ind-Ra believes NVCL will remain among the top 10 cement manufacturers in India over the near-to-medium term. Furthermore, the company is a leading player in the underpenetrated eastern India region (capacity of 18.9mnt at FYE24; up from 17.5mnt at FYE22). NVCL is also among the top 10 cement manufacturers in the northern region, with a capacity share of 4%-5%. The company has sufficient limestone reserves and was declared the preferred bidder for three limestone blocks located at Nimbol, Rajasthan in October 2024. Moreover, the acquisition of NVL in 2020 gave NVCL access to NVL's mining reserves in Rajasthan and Andhra Pradesh in addition to an operational mine in Chhattisgarh which will aid NVCL's consolidated long-term growth plans. Furthermore, with 58 ready-mix concrete (RMC) plants at FYE24 NVCL is one of the leading RMC players in India, with a presence across the country.

Demand Likely to Recover in 2HFY25 due to a Strong Presence in the Underpenetrated Eastern Region: 1HFY25 witnessed a weak demand environment given the general elections, leading to a slowdown in infrastructure projects. Furthermore, demand headwinds in key states such as West Bengal, Bihar, and Jharkhand led to a fall in NVCL's volumes. NVCL's cement volumes grew at a CAGR of around 2% over FY22-FY24. While the management targets continued volume growth, the strategy is to prioritise value with premiumisation, geo-mix optimisation, brand strengthening and cost optimisation. However, the agency believes the demand will pick up in 2HFY25 post the monsoons. Nevertheless, the pace of growth in FY25 is likely to moderate from the 9% level witnessed in the pre-election year of FY24. Structurally, the eastern part of the country is a high-potential market, owing to its under-penetration, with a low per capita consumption of cement and a high share of rural population but the pace of pick-up will be monitorable; meanwhile, the northern market is likely to remain more stable over the near-to-medium term.

NVCL's capacity utilisation was around 75% in FY24 (FY23: 79%; FY22: 75%) but remained higher than Ind-Ra's estimated industry average of 68%-70%. NVCL's cement realisations, however, increased 2% yoy in FY24 (FY23: 7%; FY22: 8%) indicating its healthy positioning. NVCL's capacity utilisations fell further to around 73% in 1HFY25 (1HFY24: 77%) with a slight decrease in the volumes and realisations on account of the increased competitive intensity within the industry.

Profitability Likely to Recover in FY26 with Cost Reduction Initiatives: After recovering to INR865/mt in FY24 (FY23:

INR644/mt; FY22: INR842/mt) owing to a reduction in the input costs and NVCL's focus on premiumisation, NVCL's consolidated blended EBITDA/mt (consolidated EBITDA/cement sales volumes) fell to INR624/mt in 1HFY25 (1HFY24: INR760/mt). This was on account of a fall in the realisations, emanating from the increased competitive intensity amid an influx of decadal-high capacities. While a sequential recovery is likely with demand recovery, Ind-Ra believes the high competitive intensity and subdued demand may have some impact on pricing over the near term.

The management has taken initiatives such as optimising its fuel mix by increasing the proportion of linkage coal, inventory optimisation, reducing the clinker factor, controlling in-transit damages and improving energy efficiency. This is in addition to increasing its alternative fuel and waste heat recovery generation, which is likely to have resulted in significant savings over FY24-1HFY25. NVCL's total power plant capacity stood at 200MW at FYE24 (FYE23: 195MW) with its renewable capacity accounting for the yoy increase. The company is likely to achieve further savings over 2HFY25-FY26 through the railway sidings at Sonadih and Jajpur in addition to other measures such as power and fuel and distribution cost optimisation. NVCL is following a multi-brand strategy, wherein NVL's existing brand - Double Bull - has been retained to serve the mass market, ensuring the group's presence in various grades/price points. NVCL has a premium positioning in the eastern region with its Concreto brand, commanding strong realisations. The company has been increasing the proportion of its premium cement, which hit an all-time high of 43% of trade sales in 2QFY25 (FY24: 38%; FY23: 37%; FY22: 34%). Ind-Ra expects these measures to support the company's profitability.

Comfortable Net Leverage in FY24; Further Deleveraging to be Delayed: The consolidated net leverage (net debt less unencumbered cash & current investments/operating EBITDA) improved to 2.4x in FY24 (FY23: 3.6x), due to a recovery in the operational EBIDTA to INR16.2 billion (INR12.1 billion) amid the reduced power and fuel costs. The lower-than-Ind-Ra-expected EBITDA amid a decline in the realisations could result in the net leverage remaining higher than that expected previously by Ind-Ra, the timing of further deleveraging remains contingent on the recovery in profitability and the company's capex plans. The net leverage rose to 3x at end-September 2024, due to the seasonally high working capital but is likely to reduce to around FY24 levels by FYE25. The gross interest cover improved to 3x in FY24 (FY23: 2.4x) and is likely to remain at similar levels in FY25.

The company will announce its next phase of growth once the net debt reduces to INR35 billion- 40 billon (FY24: INR40.3 billion).

RMC Business Remains Robust: NVCL's RMC business continued to record a healthy performance in FY24, with its revenue rising to INR10.5 billion (FY23: INR9.5 billion) and its EBITDA increasing to INR0.97 billion (INR0.60 billion). The RMC business's sales volumes grew 11% yoy in FY24 (FY23: 22%) with the number of plants increasing to 58 (51).

Moderate Geographical Diversification: NVCL has a moderate geographical diversification with its manufacturing units located in eastern and northern India, with 11 plants across eastern India (Chhattisgarh, Jharkhand, Bihar, Odisha and West Bengal), two plants in Rajasthan and one plant in Haryana in northern India. It sells cement in 14 states, with a strong presence across the eastern region and a moderate presence in the northern region.

Susceptibility to Volatility in Input Prices and Industry Cyclicality: Any sharp increase in the key input prices, including those of pet coke, coal and diesel, without a corresponding increase in cement prices, could affect the company's EBITDA. NVCL's EBITDA/mt remains exposed to its ability to maintain its operating parameters amid the inherent cyclical trends in the demand and supply of cement. However, with moderate geographical diversification and cement being a regional commodity, the commodity risk is partially mitigated.

Liquidity

Adequate: NVCL had consolidated cash and equivalents of around INR1 billion at end-September 2024 (FYE24: INR1.07 billion), along with unused working capital limits of around INR8 billion. The company's consolidated free cash flow remained healthy at INR5.1 billion in FY24 (FY23: INR7.6 billion) due to the high operational EBITDA. The company is likely to incur capex of around INR3 billion-4 billion in FY25, mainly toward its on-going railway siding at Sonadih and Jajpur and for efficiency and maintenance capex. On average, NVCL utilised less than 50% of the sanctioned limits over the 12 months ended September 2024, most of which was used in the form of non-fund-based limits. The company has

scheduled repayments of close to INR24 billion cumulatively over FY25-FY26. Ind-Ra opines NVCL's operational cash flows and available liquidity will be sufficient to meet its scheduled debt obligations over the near-to-medium term. Furthermore, NVCL has additional financial flexibility from being a part of the Nirma Group.

Rating Sensitivities

Positive: Maintaining the market position, coupled with an improvement in the profitability leading to a sustained reduction in the net adjusted leverage to below 2x, on a sustained and consolidated basis, could lead to a rating upgrade.

Negative: Deterioration in the business profile and/or a significant weakening of the profitability and/or higher-than-Ind-Ra-expected debt levels, leading to the net adjusted leverage rising above 3x, on a sustained and consolidated basis, could be negative to the ratings.

Any Other Information

Comfortable Standalone Performance: NVCL's revenue stood at INR89.4 billion in FY24 (FY23: INR85.8 billion), while its EBITDA stood at INR11 billion (INR8.2 billion). The company's interest coverage came in at 3x in FY24 (FY23: 2.3x), while the net leverage was 2.3x (3.3x).

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on NVCL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

NVCL had a consolidated total capacity of 25mnt of cement (NVCL: 16.7mnt, NVL: 8.3mnt) and13.5 mnt of clinker (NVCL: 9.4mnt, NVL: 4.mnt) at FYE24, spread across eastern and northern India.

Key Financial Indicators

Particulars (Consolidated)	FY24	FY23
Net revenue (INR billion)	107	106
EBITDA (INR billion)	16	12
EBITDA margin (%)	15.1	11.4
EBITDAR interest coverage (x)	3.0	2.4
Net leverage (x)	2.4	3.6
Source: NVCL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings	Historical Rating/Outlook			
				16 November 2023	26 September 2023	17 November 2022	18 November 2021

Issuer Rating	Long-term	-	-	-	WD	IND AA/Positive	IND AA/Positive
Commercial paper	Short-term	INR5	IND A1+	IND A1+	-	IND A1+	IND A1+
Fund/Non-fund based working capital limit	Long-term/Short-term	INR3.44	IND AA/Stable/IND A1+	IND AA/Positive/ IND A1+	-	IND AA/Positive/ IND A1+	IND AA/Positive/ IND A1+
Perpetual non-convertible debentures	Long-term	INR3	IND AA-/Stable	IND AA-/Positive	-	IND AA-/Positive	IND AA-/Positive
Non-convertible debentures programme	Long-term	INR30	-	-	-	WD	IND AA/Positive

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low
Fund/Non-fund based working capital limit	Low
Perpetual non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Perpetual NCD-Tranche 1	INE118D08052	6 July 2017	9.65	6 July 2077	INR3	WD (Paid in full)
Perpetual NCD-Tranche 2	INE118D08045	6 July 2017	10.15	6 July 2077	INR3	IND AA-/Stable

Source: Central Depository Services (India) Limited

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Treatment and Notching of Hybrids in Nonfinancial Corporates

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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