August 23, 2023

Birla Corporation Limited: Rating reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Non-convertible debenture	200.00	200.00	[ICRA]AA; reaffirmed and Outlook revised to Negative from Stable
Long-term – Non-convertible debenture	50.00	50.00	
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Negative for Birla Corporation Limited (BCL) factors in the sustained pressure on operating margins and debt protection metrics. BCL witnessed moderation in operating margins and debt coverage metrics over the last two years due to slower ramp-up in the newly started Mukutban plant and significant increase in input costs in FY2023. The OPBIDTA/MT declined to Rs. 491/MT in FY2023 from Rs. 1,015/MT in FY2021 and remained moderate at Rs. 675/MT in Q1 FY2024. Easing of input costs (power and fuel) and gradual ramp-up of operations in Mukutban plant are expected to improve profitability and consequently debt protection metrics in FY2024. However, the Net Debt/OPBITDA is likely to remain elevated at ~3.0 times by the end of FY2024.

The rating continues to factor in BCL's strong market presence in the central region, where it enjoys a market share of 12%. With the commencement of the 3.9-million MTPA Mukutban plant in April 2022, the company has strengthened its position in the western region. BCL's operating performance has improved over the years with capacity utilisation close to 95% in FY2023 (excluding Mukutban plant, which started operations in FY2023), driven by the synergies achieved post the ramp-up of operations of RCCPL Private Limited (RCCPL, wholly-owned subsidiary of BCL) plants. BCL is eligible for various fiscal incentives from Uttar Pradesh and Madhya Pradesh Governments. The plant at Mukutban is eligible for fiscal incentives for 20 years, which is expected to be received from H2 FY2024. The timely receipt of incentives from the respective state governments remains important. BCL's geographically diversified presence across the central, western, northern and eastern markets, with a current total installed capacity of ~20 million MTPA, which insulates the performance from any downturns in any region.

BCL reported an increase in the top line by 16% YoY to Rs. 8,682 crore in FY2023, backed by volumetric growth and improvement in the net sales realisations. Its revenues are likely to grow by ~13-14% in FY2024, given the strong demand from the housing and infrastructure sector as well as the incremental sales from the Mukutban plant.

The rating is, however, constrained by the cyclical nature of the cement industry, which leads to variability in profitability and cash flows. BCL's operating profitability remains susceptible to fluctuations in input prices. The net debt/OPBITDA stood high at 4.8 times in FY2023 (PY: 3.1 times) owing to higher debt levels (for funding of Mukutban plant) and a moderation in the operating profits due to significant rise in input costs. The company has large capex plans of around Rs. 2,200 - 2,500 crore, acquisition of mining rights from Sangi Infrastructure, coal block, debottlenecking, and sustenance capex in FY2024 – FY2025, which is expected to be funded in debt equity ratio of 2:1. Consequently, the debt is likely to remain at elevated levels. While the expected improvement in operating margins is estimated to improve the coverage metrics in FY2024, however, will remain moderate. ICRA takes comfort from BCL's comfortable liquidity profile, supported by a sizeable liquid investment portfolio and significant undrawn working capital lines.

Key rating drivers and their description

Credit strengths

Geographically diversified capacities and established position in the central market – BCL has geographically diversified presence across the central, western, northern, and eastern markets, with a current total installed capacity of around 20 million MTPA, which insulates the performance from any downturns in any region. The company has a strong market presence in the central region, where it enjoys a market share of 12%. Further, with the commencement of the 3.9 million MTPA Mukutban plant in April 2022, BCL has strengthened its position in the western region. Its operations remain vertically integrated, supported by clinkerisation facility of 13 million MTPA, captive limestone and coal mines, as well as power generating capacity of around 180 MW through a mix of captive power plant, waste heat recovery system (WHRS) and solar power plant.

Healthy utilisation levels excluding Mukutban plant; efficient operating parameters aided by synergies across the units – BCL's operating performance in the central region has improved significantly over the years, with capacity utilisation close to 95% in FY2023 (excluding Mukutban plant), driven by the synergies achieved post the ramp-up of operations of RCCPL's (wholly-owned subsidiary of BCL) plants. BCL is eligible for various fiscal incentives from Uttar Pradesh and Madhya Pradesh Governments. The plant at Mukutban is eligible for fiscal incentives for 20 years, which is expected to be received from H2 FY2024. The timely receipt of incentives from the respective state governments remains important.

Strong long-term growth prospects – BCL reported an increase in the top line by 16% YoY to Rs. 8,682 crore in FY2023, backed by volumetric growth and improvement in the net sales realisations. Its revenues are likely to grow by ~13-14% in FY2024, given the strong demand from the housing and infrastructure sector as well as the incremental sales from the Mukutban plant. Notwithstanding the large capital expenditure plans undertaken during the past three years, the company has been able to maintain a sizeable liquid investment portfolio and healthy cushion in working capital facilities, which further strengthen its liquidity profile.

Credit challenges

Moderate debt protection metrics due to slower-than-expected ramp-up of Mukutban plant and debt-funded capex – RCCPL has set up a greenfield integrated cement plant at Mukutban, Maharashtra which has commenced commercial production from April 2022. The slow ramp-up of the newly started plant due to operational challenges and significant increase in input costs in FY2023 resulted in moderation in operating profits. This coupled with higher debt levels resulted in total net debt/OPBITDA increasing to 4.8 times in FY2023 from 3.1 times in FY2022. Easing of input costs (power and fuel) and gradual ramp-up of operations in Mukutban plant are expected to improve profitability and consequently debt protection metrics in FY2024. However, Net Debt/OPBITDA is likely to remain elevated at ~3.0 times by the end of FY2024.

Vulnerability of revenues to cyclicality in economy – BCL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. When the capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, BCL's operating profitability remains susceptible to fluctuations in input prices.

Liquidity position: Strong

BCL's liquidity position is strong, backed by healthy unencumbered cash and liquid investments (~Rs. 691.0 crore as on March 31, 2023). Additionally, the fund-based working capital lines of BCL and RCCPL remain largely undrawn (average cushion of Rs. 445 crore at the consolidated level during April 2022-March 2023), which further strengthens its liquidity profile. The company has debt repayment obligations of ~Rs. 490 crore in FY2024, which can be comfortably serviced through its estimated cash flow from operations. It has large capex plans of around Rs. 2,200 - 2,500 crore primarily towards capacity expansion plans, acquisition of mining rights from Sangi Infrastructure, coal block, debottlenecking, and sustenance capex in FY2024 – FY2025, which is expected to be funded through debt equity ratio of 2:1.

Rating sensitivities

Positive factors – The outlook can be revised to Stable if there is a significant growth in BCL's revenues and earnings and a consequent improvement in debt protection metrics and return indicators on a sustained basis.

Negative factors – Inability of the company to improve the earnings and debt protection metrics, or net debt to EBITDA increasing beyond 2.75 times, on a sustained basis, can put negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Cement Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BCL. As on March 31, 2023, the company had seven subsidiaries and two step down subsidiaries, which are all enlisted in Annexure II.

About the company

Birla Corporation Limited (BCL), the flagship company of the M.P. Birla Group, was incorporated on August 25, 1919. It manufactures cement and jute goods. BCL has an installed cement manufacturing capacity of 10.2 million MTPA, with presence in the central, northern and eastern markets. In August 2016, BCL acquired RCCPL Private Limited (RCCPL), which increased the Group's consolidated cement manufacturing capacity to 16.1 million MTPA. In April 2022, RCCPL's 3.9 million MT integrated cement plant in Mukutban (Maharashtra) commenced operations, along with other debottlenecking projects, taking the total capacity to 20 million MT. The revenues from the cement business dominate BCL's top line, accounting for around 95% of the consolidated turnover, while the jute business contributed to the balance 5% in FY2023.

After the death of Mrs. Priyamvada Birla, wife of Mr. Madhav Prasad Birla, in July 2004, BCL was headed by Mr. Rajendra Singh Lodha. Following his death in October 2008, his son, Mr. Harsh Vardhan Lodha, took over the charge as the company's Chairman. However, BCL's ownership is under legal dispute, being contested by Mr. Harsh Vardhan Lodha and the descendants of the Birla family.

Key financial indicators (audited)

BCL Consolidated	FY2022	FY2023
Operating income	7,461.2	8,682.3
PAT	398.6	40.5
OPBDIT/OI	14.9%	8.9%
PAT/OI	5.3%	0.5%
Total outside liabilities/Tangible net worth (times)	1.5	1.6
Total debt/OPBDIT (times)	3.9	5.8
Interest coverage (times)	4.6	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Aug 23, 2023	Aug 26, 2022	Aug 27, 2021	Sep 25, 2020	Aug 31, 2020
1	9.25% Non-convertible debenture	Long term	200.00	200.0	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	9.25% Non-convertible debenture	Long term	50.00	50.0	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	9.15% Non-convertible debenture	Long term	-	-	-	-	[ICRA]AA (Stable) withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE340A07084	**Non-convertible debenture**	Aug 2016	9.25%	FY2025-FY2027	200.00	[ICRA]AA (Negative)
INE340A07092	**Non-convertible debenture**	Sep 2016	9.25%	FY2025-FY2027	50.00	[ICRA]AA (Negative)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	BCL Ownership	Consolidation Approach
RCCPL Private Limited	100.00%	Full Consolidation
Birla Jute Supply Company Ltd.	100.00%	Full Consolidation
Talavadi Cements Ltd	98.01%	Full Consolidation
Lok Cements Ltd.	100.00%	Full Consolidation
Budge Budge Floorcoverings Ltd	100.00%	Full Consolidation
Birla Cement (Assam) Ltd.	100.00%	Full Consolidation
M.P. Birla Group Services Pvt. Ltd.	100.00%	Full Consolidation
AAA Resources Private Limited	100.00%	Full Consolidation
Utility Infrastructure and Works Private Limited	100.00%	Full Consolidation

Source: BCL annual report FY2023

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About ICRA Limited:

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