CRISIL Ratings

Rating Rationale

August 11, 2023 | Mumbai

ACC Limited

Ratings Reaffirmed

Â

Rating Action

Total Bank Loan Facilities Rated	**Rs.1620 Crore**
Long Term Rating	**CRISIL AAA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities of ACC Limited (ACC; part of the Adani group).
Â
The ratings factor in the strong business risk profile by virtue of ACC and Ambuja Cements Ltd (Ambuja; â€˜CRISIL AAA/Stable/CRISIL A1+â€™) being the second-largest cement group in India. The strong presence of the Adani group in coal, power and logistics verticals will result in structural reduction in cost of production of cement owing to synergy benefits strengthening the business risk profile over the medium term. The financial risk profile of the company will remain strong over the medium term supported by a debt-free balance sheet and robust liquidity. The promoter holding company of the Adani group had raised ~$6.3 billion to fund the acquisition of shares of Ambuja and ACC from Holcim Ltd through a mix of debt, equity and shareholder loans without any commitment from Ambuja and ACC to meet principal or interest obligation.
Â
CRISIL Ratings has taken note of Ambuja Cementsâ€™ announcement on August 3, 2023, that it has entered into share purchase agreement to acquire 56.74% equity stake in Sanghi Industries Ltd (SIL) from its promoters. Ambuja Cement will also be making an open offer to acquire additional stake of up to 26% as per regulatory requirements. SIL is having clinker capacity of 6.6 MTPA, cement capacity of 6.1 MTPA, captive power plant of 130 MW, WHRS of 13 MW, and limestone reserves of 1 billion tons. The management has indicated that the acquisition will be at an enterprise value of Rs 5,000 crore and will be funded entirely through internal accruals.
Â
CRISIL Ratings believes that the acquisition will further strengthen the market position of Ambuja Cements, increasing its consolidated grinding capacity to 73.6 MTPA from 67.5 MTPA and is in line with its medium-term plan to increase consolidated cement capacity to 140 MTPA by 2028. Also, given the suitable location of SIL facilities and its good quality of limestone reserves, the overall operating performance of Ambuja Cements could improve depending upon the pace of ramp of production and optimization of clinker manufacturing costs of the plant after the acquisition, which shall be a monitorable.
Â
CRISIL Ratings is also continuously monitoring the developments following Hindenburg Research report on the Adani group published on January 24, 2023. While the ratings on ACC are driven by its strong business risk profile and robust debt protection metrics (owing to debt-free balance sheet), weakening in the credit risk profile of the Adani group may have implications for ACCâ€™s credit risk profile and thus will be a rating sensitivity factor.
Â
The new promoter group, along with the management, is looking to increase the consolidated cement capacity to 140 MTPA from 67.5 MTPA by 2028, through a mix of greenfield and brownfield expansions. It is also focusing on extracting synergies between both the companies as well as within the larger Adani group to reduce cost of production and generate superior cash accrual which shall also support capital expenditure (capex) plans. While the extent of improvement in cost of production from higher synergies remains a monitorable, CRISIL Ratings believes that the capex plans could anyways be funded via internal accruals, existing cash balance and share warrant money over the medium term and hence, does not expect leveraging of the balance sheet.
Â
For the 15 months ended March 2023, consolidated sales volume stood at 69.09 MTPA (vs 53.2 MTPA in CY2021). However, the earnings before interest, tax, depreciation and amortisation (EBITDA) margin declined to 13.1% for 15 months ended March 2023 from 21.4% in CY2021, due to a steep rise in fuel prices and freight cost. The company has revised its financial year from January-December to April-March (accordingly, the financial year ended March 31, 2023, would be for 15 months starting from January 2022 to March 2023 and the current financial year would be for 12 months between April 2023 and March 2024). Profitability is likely to improve in fiscal 2024, owing to softening of coal and pet coke prices, better operational efficiency and enhanced synergies between Ambuja and ACC as well as with other group companies.
Â
The ratings continue to reflect the strong pan-India market position of Ambuja and ACC, its robust operating efficiency and strong financial risk profile, driven by healthy cash flow and the debt-free position. These strengths are partially offset by susceptibility to the commoditised and cyclical nature of the cement industry. Substantial leveraging of the balance sheet or change in financial policies, which could weaken the financial risk profile, will be a key rating sensitivity factor.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Ambuja, ACC and all other subsidiaries/JVs/associates. This is because all these companies have a common line of business and management. They operate as one unit symbiotically and optimise each other's plant capacities and spare inventories, and thus, benefit from operational, managerial and financial synergies.
Â

Debt in ultimate holding company/companies of ACC and of Ambuja has not been consolidated as it is non-recourse to these entities and will likely be serviced via cash flow streams at the promoter level not limited to dividends of either company.
Â
Please refer annexure - list of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description
Strengths:
Strong market position
ACC and Ambuja together had an installed capacity of 67.5 million tonne per annum (MTPA) as on June 30, 2023, with a pan-India presence making it the second largest group in the cement industry. The companies jointly hold 12-13% capacity share in the domestic market. They have 14 integrated units, 16 grinding units, 85 ready-mix concrete plants and more than 78,000 channel partners with nation-wide presence. These factors shield the operations from price volatility in regional markets and demand-supply imbalance.
Â
Healthy operating efficiencies
Consolidated operating margin has been healthy, aided by high proportion of blended cement (around 88%), low clinker factor (nearly 60%) and power requirement (~60%) met captively through thermal power plants (TPPs), waste heat recovery system (WHRS) and wind/solar power. The company plans to further augment the power mix towards low-cost WHRS/wind/solar projects, so as to sustain its superior operating margin over the medium term and decarbonise the cement business.
Â
For 15 months ended March 2023, consolidated EBITDA margin was 13.1% with adjusted ROCE of around 12%. While operating margin has dipped owing to a steep rise in input prices, it is likely to recover to around 20% over the medium term. Similarly, ROCE moderated in 15 months ended March 2023 owing to aggressive capex plans but will remain healthy at 13-15% over the medium term.
Â
Strong financial risk profile
Reported networth of more than Rs 30,000 crore (including Rs 5,000 crore received against share warrants) and cash and equivalents of Rs 11,886 crore as on June 30, 2023, lend strength to the balance sheet at a consolidated level. Overall gearing too remained healthy. Strong cash flow and debt free position further translate into robust debt protection metrics.
Â
The ultimate holding companies of cement business (i.e. of Ambuja and ACC) have outstanding debt of $3.8 billion with bullet repayments and semi-annual interest servicing. The management has articulated to service this debt from the existing liquidity and cash flows generated at the group level from interest and dividend income, along with refinancing of the principal amount. Further, the cash balance and cash accrual of ACC/Ambuja will be primarily utilised towards their growth capex. Therefore, the financial risk profile is expected to remain strong. However, any substantial increase in dividend or support to group/holding company from cash flows of ACC/Ambuja may potentially weaken the credit risk profile of these companies and thus, would be a key monitorable.
Â
The company at a consolidated level is likely to incur a large capex of nearly Rs 22,000 crore over fiscals 2024 and 2025, towards capacity addition, captive power plants, plant maintenance and other infrastructure development. These are likely to be funded through internal accrual and existing liquidity. Further, Ambuja is also expected to receive Rs 15,000 crore in fiscals 2024 and 2025, as the balance sum pending towards the warrants issued. This will ensure negligible reliance on debt to fund capex.
Â
In October 2022, Ambuja issued share warrants amounting to Rs 20,000 crore to the promoter group on a preferential basis and received Rs 5,000 crore as 25% payment towards the warrants.
Â
Weakness:
Susceptibility to volatility in input cost and realisations, and cyclicality in the cement industry
Capacity addition in the cement industry is sporadic, given the long gestation period for setting up a facility and the large number of players adding capacity during the peak of a cycle. This has led to unfavourable price cycles in the past. Profitability also remains susceptible to volatility in input prices, including raw material, power, fuel, and freight cost. Increase in pet coke prices over the past year has impacted profitability of cement players. Realisations and profitability are also affected by demand, supply, offtake, and other regional factors. However, the initiatives to reduce cost and improve efficiencies will mitigate this risk some extent.

Liquidity: Superior
Under ACC, liquidity remains robust in the absence of external debt. Cash and equivalent stood at Rs 3,096 crore as on June 30, 2023. At Ambuja on a standalone level, cash and equivalent stood at Rs 8,634 crore as on June 30, 2023. Unutilised bank limit and healthy cash accrual will suffice to meet working capital requirement.
Â
At a consolidated level, cash accrual of over Rs 5000 crore is expected per fiscal over the medium term. Accordingly, cash accrual and expected equity infusion would comfortably cover the capex requirement. This, coupled with robust cash balance, will ensure healthy liquidity.

Outlook: Stable
CRISIL Ratings believes ACC will maintain its strong financial risk profile over the medium term, supported by healthy cash accrual and low reliance on debt.

Rating Sensitivity factors
Downward factors
- Substantial leveraging of the balance sheet constraining the debt protection metrics
- Sustained decline in operating margin to less than 12%
- Any substantial increase in dividends or support to group/holding company, which weakens the financial risk profile

About the Company
ACC is the oldest cement company in India, with total installed capacity of 36.05 MTPA as of March 2023. The company also manufactures ready-mix concrete and has 50 plants across the country.
Â
Ambuja is one of Indiaâ€™s leading cement manufacturers with an installed capacity of 31.45 MTPA as of March 2023. In January 2006, Holcim acquired a 14.8% stake in Ambuja. Following an open offer in April 2006, Holcim assumed management control of the company. Post restructuring between ACC and Ambuja, effective from August 12, 2016, ACC became a subsidiary of Ambuja.

Â

On May 15, 2022, the Adani group and Holcim Ltd executed a share purchase agreement for purchase of the latterâ€™s entire stake in Ambuja and ACC for a total consideration of Rs 50,181 crore (~$6.3 billion). This enabled entry of the Adani group into the cement business at second position in India, with a significant scale and strong brands. Subsequently, the board was reconstituted in September 2022 upon completion of the transaction.

Key Financial Indicators* (ACC Ltd â€“ consolidated)

Particulars	Unit	2023#	2021^
Revenue	Rs crore	22,293	16,026
PAT	Rs crore	870	1,820
PATÂ Margin	%	3.9	11.4
Adjusted debt/adjusted networth	Times	0	0
Interest coverage	Times	30.32	62.54

**as per CRISIL Ratings-analytical adjustment*
^Financials for the year ended December 31
#Financials for 15 months ended March 31

Â

Key financial Indicators* (Ambuja Cements Ltd â€“ Consolidated)

Particulars	Unit	2023#	2021^
Revenue	Rs crore	38,890	28,947
PAT	Rs crore	3,024	3,711
PATÂ Margin	%	7.8	12.8
Adjusted debt/adjusted networth	Times	0	0
Interest coverage	Times	37.51	56.04

**as per CRISIL Ratings-analytical adjustment*
^Financials for the year ended December 31; includes consolidated numbers of ACC
#Financials for 15 months ended March 31; includes consolidated numbers of ACC

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	ComplexityÂ levels	Rating assigned with outlook
NA	Letter of credit & Bank Guarantee	NA	NA	NA	1410	NA	CRISIL A1+
NA	Overdraft Facility	NA	NA	NA	132.5	NA	CRISIL AAA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	77.5	NA	CRISIL AAA/Stable

Annexure - List of Entities Consolidated

Name of the company	Extent of consolidation	Reason for consolidation
Ambuja Cements Ltd	Full consolidation	Parent company
MGT Cements Pvt Ltd*	Full consolidation	Subsidiary
Chemical Limes Mundwa Pvt Ltd*	Full consolidation	
OneIndia BSC Pvt Ltd*	Full consolidation	
ACC Mineral Resources Ltd	Full consolidation	
Bulk Cement Corporation (India) Ltd	Full consolidation	
Lucky Minmat Ltd	Full consolidation	
Singhania Minerals Pvt Ltd	Full consolidation	
Counto Microfine Products Pvt Ltd ^	Equity method	JV/Associate
Aakaash Manufacturing Company Pvt Ltd	Equity method	JV/Associate
Alcon Cement Company Pvt Ltd	Equity method	JV/Associate
Asian Concretes and Cements Pvt Ltd	Equity method	JV/Associate

**Subsidiaries of Ambuja Cements | ^ JV/Associate of Ambuja Cements*

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	210.0	CRISIL AAA/Stable	28-04-23	CRISIL AAA/Stable	23-05-22	CRISIL AAA/Stable	03-06-21	CRISIL AAA/Stable	23-11-20	CRISIL AAA/Stable	Withdrawn
Â	Â	Â	--	09-02-23	CRISIL AAA/Stable	Â	--	Â	--	Â	--	--
Â	Â	Â	--	02-02-23	CRISIL AAA/Stable	Â	--	Â	--	Â	--	--
Non-Fund Based Facilities	ST	1410.0	CRISIL A1+	28-04-23	CRISIL A1+	23-05-22	CRISIL A1+	03-06-21	CRISIL A1+	23-11-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	09-02-23	CRISIL A1+	Â	--	Â	--	Â	--	--

Â	Â	Â	--	02-02-23	CRISIL A1+	Â	--	Â	--	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Letter of credit & Bank Guarantee	100	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	160	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Letter of credit & Bank Guarantee	800	State Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee	350	HDFC Bank Limited	CRISIL A1+
Overdraft Facility	35	Citibank N. A.	CRISIL AAA/Stable
Overdraft Facility	1	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Overdraft Facility	1	JP Morgan Chase Bank N.A.	CRISIL AAA/Stable
Overdraft Facility	0.5	ICICI Bank Limited	CRISIL AAA/Stable
Overdraft Facility	5	State Bank of India	CRISIL AAA/Stable
Overdraft Facility	90	HDFC Bank Limited	CRISIL AAA/Stable
Proposed Long Term Bank Loan Facility	77.5	Not Applicable	CRISIL AAA/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Cement Industry
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja GaikwadÂ** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Manish Kumar Gupta Senior Director **CRISIL Ratings Limited** B:+91 124 672 2000 manish.gupta@crisil.com Naveen Vaidyanathan Director **CRISIL Ratings Limited** B:+91 44 6656 3100 naveen.vaidyanathan@crisil.com Divyank Shekhar Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Divyank.Shekhar1@crisil.com	Timings: 10.00 amÂ to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com Â For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites andÂ portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such asÂ bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).
Â
CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").
Â
For more information, visitÂ www.crisilratings.comÂ
Â

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.Â

It is Indiaâ€™s foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visitÂ www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report'Â includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy,

Â

Â

CRISIL Ratings uses the prefix 'PP-MLD'Â for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link:Â https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html