

Rating Rationale

August 11, 2023 | Mumbai

Ambuja Cements Limited

Ratings Reaffirmed

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Rating Action

Total Bank Loan Facilities Rated	Rs.1650 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

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Rs.100 Crore Short Term Debt	CRISIL A1+ (Reaffirmed)
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Note: None of the Directors on CRISIL Ratings Limited'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 and short-term debt programme of Ambuja Cements Limited (Ambuja Cements; part of the Adani group).

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The ratings factor in the strong business risk profile by virtue of Ambuja Cements and ACC Ltd (ACC; CRISIL AAA/Stable/CRISIL A1+™) 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 from Holcim Ltd through a mix of debt, equity and shareholder loans without any commitment from Ambuja Cements and ACC to meet principal or interest obligation.

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CRISIL Ratings has taken note of Ambuja Cements' 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.

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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.

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CRISIL Ratings is also continuously monitoring developments following Hindenburg Research report on the Adani group published on January 24, 2023. While the ratings on Ambuja Cements 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 Ambuja Cement's credit risk profile and thus will be a rating sensitivity factor.

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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.

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For the 15 months ended March 2023, consolidated sales volume stood at 69.09 MTPA (vs 53.2 MTPA in 12 months of 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, was 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 Cements and ACC as well as with other group companies.

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The ratings continue to reflect the strong pan-India market position of Ambuja Cements 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 Cements, 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.

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Debt in ultimate holding company/companies of ACC and of Ambuja Cements 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.

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 Cements 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 player 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.

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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.

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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 decline in profitability, however, the same shall remain healthy at 13-15% over the medium term.

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.

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The ultimate holding companies of cement business (i.e. of ACC and Ambuja Cements) 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 and Ambuja Cements 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 and Ambuja Cements may potentially weaken the credit risk profile of these companies and thus, would be a key monitorable.

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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, the company 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.

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In October 2022, Ambuja Cements 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.

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Weakness:

Susceptibility to volatility in input cost and realisations, and cyclicity 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.

Liquidity: Superior

At Ambuja Cements on a standalone level, cash and equivalent stood at Rs 8,634 crore as on June 30, 2023. 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. Unutilised bank limit and healthy cash accrual will suffice to meet working capital requirement.

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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 Ambuja Cements 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

Ambuja Cements is one of India'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 Cements. Following an open offer in April 2006, Holcim assumed management control of the company. Post restructuring between ACC and Ambuja Cements, effective from August 12, 2016, ACC became a subsidiary of Ambuja Cements.

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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.

On May 15, 2022, the Adani group and Holcim Ltd executed a share purchase agreement for purchase of the latter's entire stake in Ambuja Cements and ACC Ltd 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* – Ambuja Cements (Consolidated)

Particulars	Unit	2023 [#]	2021 [^]
Revenue	Rs crore	38,890	28,947
Profit After Tax (PAT)	Rs crore	3,024	3,711
PAT Margin	%	7.8	12.8
Adjusted debt/adjusted networth	Times	0.00	0.00
Interest coverage	Times	37.51	56.04

*as per CRISIL analytical adjustment

[^]Financials for the year ended December 31; includes consolidated numbers of ACC Ltd

[#]Financials for 15 months ended March 31; includes consolidated numbers of ACC Ltd

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 - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - 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)	Complexity level	Rating assigned with outlook
NA	Short-term debt	NA	NA	7-365 days	100	Simple	CRISIL A1+
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	74	NA	CRISIL AAA/Stable
NA	Cash Credit & Working Capital Demand Loan*	NA	NA	NA	25	NA	CRISIL AAA/Stable
NA	Cash Credit	NA	NA	NA	1	NA	CRISIL AAA/Stable
NA	Letter of credit & Bank Guarantee#	NA	NA	NA	1185	NA	CRISIL A1+
NA	Letter of Credit [^]	NA	NA	NA	360	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	5	NA	CRISIL AAA/Stable

*Interchangeable with bank guarantee / letter of credit

#Fully interchangeable with bank guarantee

[^]Upto Rs 80 crore interchangeable with bank guarantee

Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
ACC Ltd	Full	Subsidiary
M.G.T Cements Pvt Ltd	Full	
Chemical Limes Mundwa Pvt Ltd	Full	
OneIndia BSC Pvt Ltd	Full	
ACC Mineral Resources Ltd*	Full	
Bulk Cement Corporation (India) Ltd*	Full	
Lucky Minmat Ltd*	Full	
Singhania Minerals Pvt Ltd*	Full	
Counto Microfine Products Pvt Ltd	Equity method	
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 ACC Ltd

[^]JV / Associates of ACC Ltd

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022 [^]		2021 [^]		2020 [^]		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	105.0	CRISIL AAA/Stable	28-04-23	CRISIL AAA/Stable	07-09-22	CRISIL AAA/Stable	03-06-21	CRISIL AAA/Stable	23-11-20	CRISIL AAA/Stable	CRISIL AAA/Stable
[^]	[^]	[^]	--	09-02-23	CRISIL AAA/Stable	23-05-22	CRISIL AAA/Stable	[^]	--	[^]	--	--

Â	Â	Â	--	02-02-23	CRISIL AAA/Stable	16-02-22	CRISIL AAA/Stable	Â	--	Â	--	--
Non-Fund Based Facilities	ST	1545.0	CRISIL A1+	28-04-23	CRISIL A1+	07-09-22	CRISIL A1+	03-06-21	CRISIL A1+	23-11-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	09-02-23	CRISIL A1+	23-05-22	CRISIL A1+	Â	--	Â	--	--
Â	Â	Â	--	02-02-23	CRISIL A1+	16-02-22	CRISIL A1+	Â	--	Â	--	--
Short Term Debt	ST	100.0	CRISIL A1+	28-04-23	CRISIL A1+	07-09-22	CRISIL A1+	03-06-21	CRISIL A1+	23-11-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	09-02-23	CRISIL A1+	23-05-22	CRISIL A1+	Â	--	Â	--	--
Â	Â	Â	--	02-02-23	CRISIL A1+	16-02-22	CRISIL A1+	Â	--	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	1	JP Morgan Chase Bank N.A.	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan	4	Citibank N. A.	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan	50	HDFC Bank Limited	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan*	15	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan*	10	Standard Chartered Bank Limited	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan	20	State Bank of India	CRISIL AAA/Stable
Letter of Credit^	155	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Letter of Credit^	205	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	115	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	210	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	30	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	50	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	310	BNP Paribas Bank	CRISIL A1+
Letter of credit & Bank Guarantee#	140	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	170	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	10	State Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee#	50	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee#	100	State Bank of India	CRISIL A1+
Proposed Long Term Bank Loan Facility	5	Not Applicable	CRISIL AAA/Stable

*Interchangeable with bank guarantee / letter of credit

#Fully interchangeable with bank guarantee

^Upto Rs 80 crore interchangeable with bank guarantee

Criteria Details

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

[CRISILs Criteria for Consolidation](#)

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