CRISIL Ratings

Rating Rationale

January 31, 2024 | Mumbai

Birla Corporation Limited

Rating reaffirmed at 'CRISIL A1+'

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Rating Action

Rs.300 Crore Commercial Paper	**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 â€˜CRISIL A1+â€™ rating on the commercial paper programme of Birla Corporation Ltd (BCL).

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During fiscal 2023, the consolidated operating income increased by around 16% year-on-year, owing to the rise in sales volume (by ~11% to 15.73 million tonne) as well as higher realisations. However, the earnings before interest, tax, depreciation, and amortisation (Ebitda) margin moderated to around 9%, due to steep rise in cost of power, fuel and freight, as reflected in the lower Ebitda per tonne of around Rs 491 for fiscal 2023 as against Rs 772 for fiscal 2022. Operating performance improved during first half of fiscal 2024 with Ebitda per tonne increasing to Rs 683 compared to Rs 467 for the corresponding period of the previous fiscal, owing to moderation in input costs (especially coal and petcoke prices) and ramping up of production at Mukutban plant. Sales volume and profitability are expected to improve further, primarily owing to production ramp-up in Mukutban plant and adequately supported by rising utilisation levels in rest of the plants. CRISIL Ratings expects consolidated EBITDA per ton of more than Rs 900 over the medium term.

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Debt protection metrics moderated in fiscal 2023, owing to weak operating profitability, which was further impacted by negative contribution from the Mukutban plant, which commissioned during April 2022. However, net leverage (net debt to Ebitda ratio) is expected to improve going forward with increase in overall profitability and stabilisation of Mukutban plant. Notwithstanding the moderation in leverage ratios during fiscal 2023, the financial risk profile remains comfortable for the rating, driven by improvement in performance, healthy liquidity and ability of BCL to raise funds at short notice and at competitive rates.

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The rating continues to reflect the company's established position in the cement industry, continued synergies with RCCPL Pvt Ltd (RCCPL, rated â€˜CRISIL A1+â€™), and high financial flexibility. Â These strengths are partially offset by a leveraged capital structure, susceptibility to fluctuations in input costs and cyclicality in the cement industry.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of BCL, RCCPL and other subsidiaries. The acquisition of RCCPL was strategic for BCL, and therefore the latter is expected to extend financial, operational, and management support to RCCPL as and when required.

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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:

- **Established position in the cement industry:** The consolidated capacity stands at 20 million tonne per annum (MTPA), of which 10.2 MTPA is in BCL and 9.8 MTPA in RCCPL post commissioning of the additional 3.9 MTPA greenfield Mukutban plant in April 2022. The company has its captive limestone mines, clinker capacities as well as captive power plants and has commissioned WHRS capacity of 8.6 MW in fiscal 2023. The market position shall strengthen with the ramp up in production from the Mukutban plant.

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- **Synergies from RCCPL transaction:** Operating profitability has benefitted from the VAT (value-added tax) incentives available to RCCPL and various synergies in logistics, power and fuel, and selling and distribution expenses. Post the acquisition, the capacity utilization in RCCPL has improved to more than 100% in fiscal 2023 from 64% in fiscal 2017. It has mineral concessions in Madhya Pradesh, Maharashtra and Himachal Pradesh for further expansion. Its cement plants are relatively new and enjoy various tax incentives. Given BCL's presence in the central region, the acquisition has resulted in sizeable synergies. The Mukutban plant will also enjoy SGST incentives which shall aid margins.

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  The ability to continuously reap synergistic benefits and thereby further improve profitability over the medium term, will be a key monitorable.

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- **Healthy liquidity and financial flexibility:** Financial flexibility is backed by liquidity, sizeable freehold land parcels, and support available from the MP Birla group. The company had cash, cash equivalents and investments of around Rs 440 crore as on September 30, 2023.

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Weaknesses:

- **Moderate debt protection metrics:**Â BCL had acquired RCCPL at a total consideration of Rs 4,800 crore (including debt of Rs 2,400 crore). The company paid total consideration of Rs 2,272 crore towards the transaction, which had been funded byÂ debt, cash, and liquid investment. Additionally RCCPL was inherently leveraged which resulted in weakening of debt protection metrics at consolidated level.

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The delay in commissioning and slower than expected ramp up of debt-funded project at Mukutban, Maharashtra, kept the consolidated leverage high. Net debt to EBITDA moderated to 4.7 times as of March 2023 from 2.4 times as of March 2021. However, with Mukutban plant stabilisation and improvement in profitability, financial risk profile is expected to improve. Even with capex over the medium term, the net debt/Ebitda ratio is expected to remain below 3 times.

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- **Input costs related risk and cyclicality in cement industry:** Profitability is susceptible to volatility in the costs of inputs such as material, power, fuel and freight. Also, any change in government policies could impact the operating margin. For instance, in fiscal 2018, the operating profit was impacted by issues such as a ban on sand mining in Rajasthan and Uttar Pradesh, a ban on usage of pet coke in Rajasthan and shortage of railway rakes. The operating margin in fiscal 2023 was impacted by higher cost of coal/pet coke and diesel.

Liquidity: Strong

Cash accrual is estimated at around Rs 750-800 crore in fiscal 2024, as against long-term debt repayment obligation of Rs 491 crore. Accruals are expected to increase to around Rs 950-1,050 crores during fiscal 2025 owing to improvement in operating performance. This would be sufficient to meet repayment obligations. Similarly, the cash and equivalents were around Rs 440 crore as on September 30, 2023, and the fund-based working capital facilities of Rs 700 crore were marginally utilized. The bank lines are expected to meet incremental working capital requirements over the medium term.

Rating Sensitivity factors

Downward factors:

- Weaker-than-expected operating performance, or higher-than-expected debt resulting from capex or acquisitions, leading to consolidated net debt to Ebitda ratio of more than 4 times on a sustainable basis
- Moderation in the business risk profile, driven by sustained disruption in demand.
- Significant weakening of financial flexibility

About the Company

BCL is the flagship company of the MP Birla group. The company was originally incorporated as Birla Jute Manufacturing Company Ltd in 1919 and was renamed in 1998 to reflect its diversified operations. Under the chairmanship of Mr. Madhav Prasad Birla (Mr. M P Birla), the company diversified into manufacturing cement, polyvinyl chloride (PVC) goods, and automotive trim parts. As on date, cement is the largest contributor to revenue (over 90%) with the remaining coming from jute and other products. BCL has cement plants across 8 locations in four states: Rajasthan, Uttar Pradesh, Madhya Pradesh, and West Bengal And Maharashtra

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After Mr. M P Birla passed away, the group was being run by his wife, Ms. Priyamvada Birla, who passed away in 2004. Ms. Birla had appointed Mr. R S Lodha and his son Mr. Harsh V Lodha as her successors through a will. Currently, the ownership is being contested by members of the Birla family against Mr. Harsh V Lodha, the current chairman, in the court of law.

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On August 22, 2016, BCL acquired the entire equity of Reliance Infrastructure (R-infra) in RCCPL, the then wholly owned subsidiary of R-Infra, for an enterprise value of Rs 4,800 crore. The acquisition has strengthened the company's position in central India. RCCPL at present has an aggregate operational cement manufacturing capacity of 9.8 MTPA. It has four plants, including integrated plants at Maihar in Madhya Pradesh and Mukutban in Maharashtra, and satellite grinding units at Kundanganj in Uttar Pradesh and Butibori in Maharashtra.

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During the first half of fiscal 2024, the consolidated operating income increased by around 11.7% year-on-year, owing to rise in sales volume (by ~13% to 8.59 million tonne). Ebitda per tonne improved to Rs 683 in the same period compared to Rs 467 during first half of fiscal 2023, with moderation in input costs (especially coal and petcoke prices) and ramping up of production at Mukutban plant.

Key Financial Indicators^ (Consolidated)

Particulars	Unit	2023	2022
Revenue	**Rs crore**	**8684**	**7464**
Profit after tax (PAT)	**Rs crore**	**38**	**397**
PAT margin	**%**	**0.4**	**5.3**
Adjusted debt/Adjusted networth	**Times**	**0.87**	**0.83**
Interest coverage	**Times**	**2.46**	**4.92**

^as per CRISIL analytical adjustment

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.

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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 the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	300	Simple	CRISIL A1+

Annexure â€“ List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation

RCCPL Pvt Ltd	Full	BCL holds majority shares along with full management control
Birla Jute Supply Company Ltd	Full	
Talavadi Cements Ltd	Full	
Lok Cement Ltd	Full	
Budge Budge Floor Coverings Ltd	Full	
Birla Cement (Assam) Ltd.	Full	
M. P. Birla Group Services Pvt Ltd	Full	

Annexure - Rating History for last 3 Years

Â	Current			2024 (History)		2023Â		2022Â		2021Â		Start of 2021
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Commercial Paper	ST	300.0	CRISIL A1+	Â	--	25-04-23	CRISIL A1+	09-06-22	CRISIL A1+	10-06-21	CRISIL A1+	CRISIL A1+
Non Convertible Debentures	LT	Â	--	Â	--	Â	--	Â	--	10-06-21	Withdrawn	CRISIL AA/Stable

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Cement Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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