HeidelbergCement India Limited
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HCIL:SECTL:SE:2019-20

27th March 2020

BSE Ltd.
Listing Department
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai - 400001

National Stock Exchange of India Ltd
Listing Department,
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051

Scrip Code:500292

Trading Symbol: Heidelberg

Dear Sir,

Sub: Intimation of Reaffirmation of Credit Rating
Re: Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

This is to inform that India Ratings and Research Pvt. Ltd., (credit rating agency) has on 27th March 2020 reaffirmed the Long-Term Issuer Rating of HeidelbergCement India Limited as "Ind AA+" (with stable outlook). The credit rating in respect of 10.4% Non-Convertible Debentures has also been reaffirmed as "Ind AA+" (with stable outlook).

A copy of communication received from India Ratings and Research Pvt. Ltd. in this regard is enclosed.

This is for your information and records.

Thanking you,

Yours Faithfully,
For HeidelbergCement India Ltd.

Rajefelan

Rajesh Relan
Legal Head & Company Secretary

IndiaRatings & Research
A Fitch Group Company

India Ratings Affirms HeidelbergCement India at 'IND AA+'/Stable

27
MAR 2020

By Prasad Patil

India Ratings and Research (Ind-Ra) has affirmed HeidelbergCement India Limited's (HCIL) Long-Term Issuer Rating at 'IND AA+'. The Outlook is Stable. The instrument-wise rating action is as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bonds	INE578A08012	December 2013	10.4%	December 2021	INR2,450 (reduced from INR3,700)	IND AA+/Stable	Affirmed

Analytical Approach: Ind-Ra continues to factor in strong support from the company's ultimate parent, HeidelbergCement AG (HCAG, Fitch Ratings Ltd Issuer Default Ratings: 'BBB-'/Stable), while arriving at the rating, owing to the strong strategic, operational and legal linkages between the entities.

KEY RATING DRIVERS

Strong Linkages with Parent: The affirmation reflects HCIL's continued strong strategic, operational and legal linkages with its ultimate parent, HCAG. The strong legal linkages stem from the 69.4% shareholding of HCAG in HCIL and the presence of a centralised treasury, as the debt is initially raised in the HCAG books and then downstreamed to the Indian entity. The company's strong legal linkage with HCAG is reflected by its working capital facilities, which are carved out of HCAG's global limits and have a cross-default provision. Also, HCAG bond documents have cross-default provisions on thresholds of EUR50 million- 100 million. As a part of the centralised treasury, in 2013, HCAG infused INR1,500 million into HCIL in the form of external commercial borrowings, which have been fully repaid (as of August 2018), and INR3,700 million through a qualified foreign investors transaction.

HCAG maintains a close watch over HCIL's treasury and operational activities and has appointed directors on HCIL's board. The operational linkages are strengthened by the fact that the companies are in the same line of business and also by HCAG's focus on expanding its cement business in emerging markets. HCIL receives technical support from the HeidelbergCement Group, through which it has been able to improve its operational performance. In return, HCIL pays license fees to the HeidelbergCement Group.

Improved Standalone Credit and Operational Profile: HCIL turned net cash positive at 9MFY20 end, primarily driven by a substantial reduction in debt. HCIL's net debt reduced to INR364 million as of September 2019 (FY19: INR1,792 million; FY18: INR4,068 million), driven by strong cash flow generation resulting from the improvement in EBITDA/tonne and efficient working capital management, coupled with lower capex given the low-cost debottlenecking being conducted by the company. Consequently, HCIL's adjusted net leverage (net debt/trailing twelve months EBITDA) improved to 0.07x as of September 2019 (FY19: 0.37x; FY18: 1.12x), and the interest coverage (EBITDA/interest expense) to 6.95x during 9MFY20 (FY19: 6.46x; FY18: 4.88x).

In the absence of any major debt-led capex, stable profitability and cash flows, Ind-Ra expects HCIL's credit metrics to remain strong over the medium term. The company has gradually increased its EBITDA/tonne to INR1,108 in 9MFY20 (FY19: INR987; FY18: INR781) mainly due to increased sales realisation of INR4,559 (INR4,308; INR3,999). The increase in realisations was a due to higher sales of premium cement and a favourable demand supply situation in central India. The improvement in realisations was also driven by operating efficiencies (including blending ratios), lead distances and power purchase cost per unit optimisation through the use of low-cost external sources/waste heat recovery/solar power and energy consumption in the kiln which resulted in a stable cost per tonne.

The company is also eligible for state goods and services tax incentive, which aids the overall EBITDA; as of FYE19, the company had cumulative value added tax and state goods and services tax incentives receivable of INR631 million. These benefits are applicable for 10 years and will expire in FY23. On account of the above, the company's overall return on capital employed improved to 23% in FY19 (FY18: 16%)

Muted Volume Growth and High Capacity Utilisation: HCIL's volume growth remained nearly muted in 9MFY20 with sales of 3.62 million metric tonne (9MFY19: 3.69mmt; FY19: 4.9mmt), on a marginal decline in central and southern regions of India, and absence of clinker sales. However, the capacity utilisation remained high at 90% during 9MFY20. Ind-Ra expects cement demand to be robust in the central region of the country on account of the government's continued thrust on infrastructure and pick-up in the individual home building space and the limited capacity addition in the region.

Capacity Expansion through Debottlenecking: HCIL is in the process of expanding its capacities through debottlenecking in Imlai (Madhya Pradesh) and Jhansi (Uttar Pradesh) located in central India. These plants are running at nearly 100% capacity utilisation and with the commissioning of the additional grinding capacities (Imlai: 0.5mmt, Jhansi: 0.55mmt), HCIL intends to cater to incremental volumes. The company is spending INR207 million on these projects, which are being funded through internal accruals. Ind-Ra expects the debottlenecking projects to improve HCIL's overall operational efficiency and profitability over the medium-term. The management does not envisage a need for additional clinker capacity given the clinker capacities are running at close to 85% utilisation.

Liquidity Indicator- Adequate: HCIL has been consistently generating positive cash flow from operations and free cash flow over FY16-FY19 due to strong operating profitability and a comfortable net working capital cycle (FY19: 4 days; FY18: negative 4 days). HCIL's low average debtor days were flat yoy at four in FY19 given the higher proportion of trade sales (close to 85%). Moreover, it was able to increase the payable days through vendor discounting program initiated by the company resulting creditor days increasing to 69 days in FY19 (FY18: 64 days). HCIL's average monthly utilisation of its working capital limits was 73% for the 12-months ended January 2020. It had high cash and cash equivalent of INR4,870 million, as of September 2019. HCIL had gross debt of INR6,046 million as of FYE19, of which INR2,346 million comprised interest-free loan from the government of Uttar Pradesh, and non-convertible debentures (NCDs) worth INR3,700 million from the group. HCIL repaid INR1,250 million in 3QFY20 towards these NCDs. The company has scheduled NCDs repayments of INR1,250 million and INR1,200 million for FY21 and FY22, respectively, and INR2,346 million from FY23 towards the government of Uttar Pradesh's interest-free loan. Ind-Ra expects the company's liquidity to remain strong over the medium term, backed by robust profitability, stable working capital cycle and continued support from the parent. Given the overall experience of HCAG in India and adequate liquidity available in HCIL, the company may consider inorganic expansion for future capacity growth.

Geographical Diversification by HCAG: HCAG (ultimate parent of HeidelbergCement group companies) acquired a leading global cement company Italcementi S.P.A in July 2016. The combined entity is the second-largest entity globally in cement production, with a presence in more than 60 countries. In India, HCAG's presence has increased by way of Italcementi's presence through its 100% subsidiary, Zuari Cement Limited (ZCL, 'IND AA+'/Stable). This has enabled HCAG to double its cement capacity, with ZCL catering to markets in southern India and HCIL to central India. ZCL has been integrated within HCAG, with the same top management team looking after both the group companies in India.

Exposure to Industry Cyclicality: HCIL's EBITDA/tonne remains vulnerable to the company's ability to maintain its operating parameters amid the inherent cyclical trends in the demand and supply of cement. However, Ind-Ra has maintained a stable long-term outlook for the cement sector and expects the cement demand to grow 4%-6%over the medium term, in view of the government's focus on infrastructure development and the housing sector.

RATING SENSITIVITIES

Positive: Improvements in the linkages between HCIL and HCAG, or a rating upgrade of HCAG will be positive for HCIL's ratings.

Negative: Future developments that could, individually and collectively, lead to a negative rating action include:
- a rating downgrade of HCAG
- deterioration in the linkages between HCAG and HCIL

COMPANY PROFILE

HCIL is a subsidiary of HCAG, Germany. The company operates in central India in Damoh (Madhya Pradesh) and Jhansi (Uttar Pradesh) and in southern India in Ammasandra (Karnataka). Post the completion of the debottlenecking projects, HCIL will have effective capacity of 6.26 million tonnes per annum in Madhya Pradesh, Uttar Pradesh and Karnataka.

FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue from operations (INR million)	21,334	18,895
EBITDA (INR million)	4,833	3,634
Interest cost (INR million)	748	745
EBITDA margins (%)	22.7	19.2
Gross interest coverage (x)	6.46	4.88
Source: HCIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	29 March 2019	29 March 2018	27 March 2017
Issuer rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Bonds	Long-term	INR2,450	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

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