

HeidelbergCement India Limited

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HCIL:SECTL:SE:2018-19

29th March 2019

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 RatingRe: 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 29th March 2019 reaffirmed the Long-Term Issuer Rating of HeidelbergCement India Limited as "Ind AA+" (with stable outlook).

The credit rating with respect to 370 numbers of Non-Convertible Debentures of INR 10 million each aggregating to INR 3700 million allotted on 16th December 2013, has also been reaffirmed as "Ind AA+" (with stable outlook).

This is for your information and records.

Thanking you,

Yours Faithfully,
For HeidelbergCement India Ltd.



Rajesh Relan
Legal Head & Company Secretary



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

29

By Shochis Natrajan

MAR 2019

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 2019-December 2021	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 ratings owing to the strong strategic and operational, and moderate legal linkages between the entities.

KEY RATING DRIVERS

Strong Linkages with Parent: The affirmation reflects HCIL's continued strong strategic and operational, and moderate legal linkages with its ultimate parent, HeidelbergCement AG. The legal linkages are driven by the cross default provisions in HCAG's capital market debt. HCAG raises funds in its books and extends them to overseas subsidiaries, resulting in centralised treasury operations for a maximum portion of debt. As part of this policy, HCAG has infused INR1.5 billion into HCIL in the form of external commercial borrowings, which have been fully repaid as of August 2018, and INR3.7 billion through a qualified foreign investors transaction.

In FY18, 84% of HCIL's total debt was raised within the group; interest-free loans from the Uttar Pradesh government accounted for the balance. 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 HeidelbergCement group, through which it has been able to improve its operational performance. HCIL, as part of this support, pays royalty to the HeidelbergCement group.

Improved Standalone Operational and Credit Profile: HCIL's standalone credit metrics improved in FY18 due to an increase in EBITDA/tonne and lower debt-led capital expenditure. The adjusted net leverage (net debt/EBITDA) improved to 1.12x from 2.48x in FY17, and the interest coverage (EBITDA/interest expense) improved to 4.88x from 3.11x. The company gradually increased its EBITDA/tonne to INR972 in 9MFY19 from INR781 in FY18 and INR623 in FY17, mainly due to increased sales realisations (9MFY19: INR4,273, FY18: INR3,999, FY17: INR3,772) coupled with operating efficiencies, which resulted in a stable cost per tonne despite a rise in costs.

Modest Volume Growth and High Capacity Utilisation: HCIL has also overcome sand mining and waste management issues related to the infrastructure segment. The company recorded a volume growth of 4% yoy in FY18, with sales of 4.65 million metric tonnes. The volume growth remained strong at 9% yoy in 9MFY19, with sales of 3.69 million metric tonnes, and the capacity utilisation stood at 91%. 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.

Strong Liquidity: HCIL has been consistently generating positive cash flow from operations and free cash flow over FY16-FY18 due to strong operating profitability and a comfortable net working capital cycle (FY18: negative 8 days; FY17: 3 days). HCIL's average maximum monthly utilisation of its working capital limits was 63% for the 12 months ended January 2019. It had robust cash and cash equivalent of INR1.63 billion as of September 2018. HCIL has scheduled repayment of INR1.25 billion for the next two years and INR1.2 billion for the third year. Ind-Ra expects the liquidity to remain strong over the medium term, backed by robust profitability and stable working capital cycle.

Geographical Diversification by HCAG: HCAG 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 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, whereas HCIL derives close to 95% of its revenue from Madhya Pradesh and Uttar Pradesh. Operationally, 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 cement demand to grow 6%-8%, 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 the 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 has its operations in central India in Damoh (Madhya Pradesh) and Jhansi (Uttar Pradesh) and in southern India in Ammasandra (Karnataka). The capacity of its manufacturing facilities in Madhya Pradesh and Uttar Pradesh is 4.8MTPA and Karnataka is 0.6MTPA.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	18,895	17,175
EBITDA (INR million)	3,634	2,789
Interest cost (INR million)	745	898
EBITDA margins (%)	19.2	16.2
Gross interest coverage (x)	4.88	3.11
Source: HCIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	29 March 2018	27 March 2017	1 March 2016
Issuer rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA/Stable
Bonds	Long-term	INR3,700	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instrument, 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.

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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.

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Applicable Criteria

[Corporate Rating Methodology](#)
[Parent and Subsidiary Rating Linkage](#)

Analyst Names

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