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Ind-Ra Assigns HeidelbergCement India 'IND AA-'; Outlook Stable

Ind-Ra-New Delhi-28 November 2013: India Ratings & Research (Ind-Ra) has assigned HeidelbergCement India Limited (HCIL) a Long-Term Issuer Rating of 'IND AA-'. The Outlook is Stable. Ind-Ra has also assigned HCIL's INR3.7bn long-term unsecured bonds a rating of 'IND AA-'.

KEY RATING DRIVERS

The ratings reflect the strong legal, strategic and operational linkages between HCIL and its ultimate parent HeidelbergCement AG (HCAG, Fitch Ratings Issuer Default Ratings: 'BB+') as assessed under the 'Parent and Subsidiary Rating Linkage' criteria. The legal linkages are driven by the unconditional and irrevocable guarantees provided by HCAG to HCIL's bank facilities in India, cross default provisions in the capital market debt of HCAG and the group strategy of raising funds at HCAG level to fund overseas subsidiaries, resulting in common treasury operations. The credit, interest and currency risks are managed by the treasury at HCAG level instead of the subsidiary which translates into direct financial support. As part of this policy, HCIL benefits by way of USD125m external commercial borrowing and INR1.5bn term loans infused by the parent entity.

Ind-Ra also assesses HCIL to be operationally integral to the core business of the parent, given the same line of business and HCAG's focus of growing its cement business in emerging markets. HCIL receives technical support from HeidelbergCement Technology Center (HTC) through which it has been able to improve its operational performance. HCIL's board of directors also has a strong representation from HCAG.

At the strategic level, India constitutes an important end-market for HCAG, and HCIL provides access to this market. However for 2012, HCIL contributed only 0.8% to HCAG's revenue at the consolidated level and 2.5% to HCAG's cement capacity globally (122mt). HCAG's investment in HCIL and HCIL's contribution to HCAG's EBITDA are moderate relative to HCAG's annual investments and profits. However, HCAG's track record of tangible support to HCIL's through intercompany loans adds to the strategic importance of the entity.

HCIL is making a qualified foreign investors (QFI) bond issuance of INR3.7bn to replace the existing term loans from domestic banks.

HCIL's standalone credit profile reflects the negative impact of its debt-led capacity expansion of INR16bn in Damoh and Jhansi. Net leverage increased to a high of 12.4x in 2012 (2011: 7.1x). The full impact of the capacity expansion will accrue from 2014 and will be reflected in the form of improving net leverage.

The company is undertaking measures for efficiency improvement towards lower energy consumption, lower energy costs through installation of a waste heat recovery plant at its Damoh unit, improvements in fuel mix and lower limestone transportation costs through installation of an overland belt conveyor. Employee cost as a % of sales could also decline as capacity use increases. As the low EBITDA/tonne plant at Raigad is being sold to JSW Steel Limited and a larger share of volumes starts coming from the Damoh and Jhansi units, the overall EBITDA/tonne is also likely to improve.

However, HCIL's average lead distance could see an increase as it reaches to new markets to use its expanded capacity. Also, given the additional capacities coming in Central India and the general slowdown in consuming sectors, the company could remain exposed to a weak pricing environment which could potentially delay some of the improvements envisaged in the standalone credit profile.

RATING SENSITIVITIES

Positive: Future developments that could, individually and collectively, lead to a positive rating action include:
- a rating upgrade of HCAG

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- an improvement in the linkages between HCAG and HCIL by way of an increase in the latter's EBITDA to from a meaningful contribution to the group's overall operating performance

Negative: Future developments that could, individually and collectively, lead to a negative rating action include:
- a rating downgrade of HCAG
- a deterioration in the linkages between HCAG and HCIL by way of continued under performance by the Indian business

COMPANY PROFILE

HCIL has four manufacturing facilities located in central (Madhya Pradesh and Uttar Pradesh: 5mt), western (Maharashtra: 0.6mt) and southern India (Karnataka: 0.4mt), with nearly 83% capacity in Central India. Post the sale of the Raigad facility, 93% of the capacity would be located in Central India. HCIL reported revenue of INR11bn in 2012 (2011: INR9.9bn), EBITDA of INR772.1m (INR657.7.m) and profit after tax of INR308.4m (INR291.7m).

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Applicable criteria, 'Corporate Rating Methodology', dated 12 September 2012, are available at www.indiaratings.co.in.

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