S&P Global Ratings

Second Party Opinion

UltraTech Cement Ltd. Sustainability-Linked Financing Framework

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Editor's note: This SPO report is based on S&P Global Ratings' "Analytical Approach: Second Party Opinions And Transaction Evaluations" dated Dec. 7, 2022, which was partly superseded by S&P Global Ratings' "Analytical Approach: Second Party Opinions: Use of Proceeds," dated Jul. 27, 2023, following the launch of our integrated use-of-proceeds SPOs.

Incorporated in 2000 and based in Mumbai, India, UltraTech Cement Ltd. (UltraTech) manufactures and sells grey cement, white cement, and ready-mix concrete (RMC). In the financial year ended March 31, 2024 (FY24), the company posted net sales of US$8.4 billion and sales volume of 119.0 million metric tons (MMT). Its customer base covers individual home buildings, construction materials dealers, real estate developers, infrastructure companies, and institutional buyers. With a capacity of 147.3 million tons per annum (MTPA) of grey cement, the company has business operations across 125 cities in India, United Arab Emirates, Bahrain, and Sri Lanka.

UltraTech is the heavy materials arm of the Aditya Birla Group, a global diversified group. The company is listed on both the Bombay Stock Exchange and National Stock Exchange of India.

In our view, UltraTech's sustainability-linked financing framework, finalized in August 2024, is aligned with:

- ✓ Sustainability-Linked Bond Principles, ICMA, 2024 (SLBP)
- ✓ Sustainability-Linked Loan Principles (SLLP), LMA/LSTA/APLMA, 2023 (SLLP)

Issuer's Sustainability Objectives

UltraTech's board-level risk management and sustainability committee oversees its sustainability issues and efforts. The company has conducted a materiality assessment and identified 20 major sustainability issues. Its ESG framework focuses on five pillars: (i) innovation, research, and development; (ii) operations and energy efficiency improvement; (iii) energy transition; (iv) circular economy; and (v) products diversification and development.

The company is a member of the Global Cement and Concrete Association (GCCA) and is committed to the GCCA Climate Ambition 2050. Its roadmap's targets for FY50 include producing carbon-neutral concrete, achieving net-zero emission, and sourcing 100% of its electricity from renewable sources. It has also set interim targets to reduce its scope 1 emission intensity by 27%, and scope 2 emission intensity by 69% by FY32, from base year FY17; these targets are validated by the Science Based Targets Initiative (SBTi) as being aligned with the well-below 2°C scenario.

Key decarbonization initiatives include reducing energy consumption, replacing fossil fuel with alternative fuels, blended cement production (which requires less clinker and thus lower direct carbon emissions), new product development, low-carbon concrete production, and piloting new technologies. Furthermore, the company has set internal carbon price and is also exploring innovative technologies such as carbon offsets, carbon capture utilization and storage (CCUS), hydrogen and kiln electrification to further enhance carbon reduction efforts.

UltraTech has developed a sustainability-linked financing framework to align its funding strategy with its value proposition and, in this way, achieve its sustainability objectives. Eligible instruments under the framework include bonds, loans, and related hedging instruments.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	FY24 performance
Scope 1 CO_2 emissions per ton of cementitious product ($kgCO_2$/t.cem)	Scope 1 emissions, measured in $kgCO_2$ per ton of cementitious material ($kgCO_2$/t.cem), should be equal to or lower than 520, by March 31, 2032, a reduction of 27% from a FY17 baseline.	716 $kgCO_2$/t.cem (FY17)	602 $kgCO_2$/t.cem
Green energy consumption (%)	Increase green energy consumption from waste heat recovery system (WHRS), solar, and wind power to 85% by FY30, and 100% in FY50.	22% (FY24)	22%

Second Party Opinion Summary

Selection of key performance indicators (KPIs)

Alignment ✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

		Not aligned	Aligned	Strong	Advanced
KPI 1	Scope 1 CO_2 emissions per ton of cementitious product ($kgCO_2$/t.cem)			**Strong**	
KPI 2	Green energy consumption (%)		**Aligned**		

Calibration of sustainability performance targets (SPTs)

Alignment ✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

		Not aligned	Aligned	Strong	Advanced
SPT 1	Scope 1 emissions, measured in $kgCO_2$ per ton of cementitious material ($kgCO_2$/t.cem), should be equal to or lower than 520, by March 31, 2032, a reduction of 27% from a FY17 baseline		**Aligned**		
SPT 2	Increase green energy consumption from WHRS, solar, and wind power to 85% by FY30, and 100% in FY50			**Strong**	

Instrument characteristics

Alignment ✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

The sustainability-linked instruments under the framework will be subject to potential changes in their financial characteristics triggered by a failure to achieve the stated SPTs by the target observation period. Such variations may include a coupon adjustment, margin adjustment, premium payment, or additional covenants. The framework also includes a fallback mechanism such that if SPTs cannot be calculated, observed, or reported in a timely and satisfactory manner, the defined bond or loan characteristic change will be triggered.

Reporting

Alignment ✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

	Not aligned	Aligned	Strong	Advanced
Score			**Strong**	

UltraTech commits to annually disclosing the progress of each KPI against the SPT, and other relevant information which may enable lenders or investors to monitor the company's progress on the SPTs, on the company's website. It will obtain an annual verification assurance report on the actual performance. Additionally, it will communicate with lenders to provide information on related financial impact for the relevant target observation period. It will also disclose the main factors driving the performance of KPIs, the sustainability impacts of the achievements, as well as any reassessment of the KPI or restatements of the SPTs.

Post-issuance review

Alignment ✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

UltraTech commits to having independent third-party verification of the KPI's performance against the SPT on an annual basis. The information will be publicly disclosed on the company's website.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI, its significance for the issuer's sustainability disclosures, and how material it is to the issuer's industry and strategy.

✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

KPI 1	Scope 1 CO_2 emissions per ton of cementitious product ($kgCO_2$/t.cem)	Not aligned	Aligned	**Strong**	Advanced

This KPI is aligned with the Principles given that the scope, objective, and calculation methodology are clearly articulated in the framework. We assess this KPI as strong because it addresses direct emissions from UltraTech's cement production businesses, which are highly energy intensive. Direct emissions are material in absolute terms (71.24 million tons CO_2 in FY24) as they account for the majority of UltraTech's carbon footprint (88%-92% of its total carbon emissions between FY17 and FY24).

The KPI covers all manufacturing units of the company, both in India and overseas. UltraTech calculates its scope 1 emissions using the CGGA's Cement CO_2 Protocol. They stemmed from direct energy consumption for production, including the use of coal and lignite, petcoke, waste fuel, diesel oil, furnace oil, and other fuels. The historical and baseline data are externally verified and publicly available.

The KPI directly addresses climate transition risks, which is a key sustainability challenge for the industry (see "ESG Materiality Map: Building Materials, published May 18, 2022). Likewise, the ICMA registry considers scope 1 greenhouse gas emissions reductions as core for the cement sub-sector. The reduction in scope 1 greenhouse gas emissions intensity is consistent with UltraTech's annual materiality assessment, under the environmental pillar. It is also aligned with the company's sustainability strategy, whereby the company aims to produce carbon-neutral concrete, achieve net-zero emission, and source 100% of its electricity from renewable sources by FY50.

The KPI is expressed in intensity, not absolute terms. UltraTech has selected production volume, in tons of cementitious product, as the normalizing factor for its scope 1 greenhouse gas emissions. The KPI is common in the industry, allowing for external benchmarking. There is no pricing discrepancy in the calculation compared to metrics based on revenues, thus allowing for a cleaner and more objective assessment of performance. However, the nature of the KPI means absolute emissions could increase, should the growth in cementitious product sales exceed the reduction in emissions intensity. In FY17-FY24, for example, absolute scope 1 emissions increased by 92% while scope 1 emissions intensity reduced by 16%. Reaching the KPI's targets might still come with an overall increase in total emissions, a clear limitation on its sustainability benefits.

KPI 2	Green energy consumption (%)	Not aligned	**Aligned**	Strong	Advanced

This KPI is aligned with the Principles because its scope, objective, and calculation are clearly articulated in the framework. It is in line with UltraTech's sustainability strategy and a material factor for the industry.

The KPI covers all manufacturing units of the company, both in India and overseas. Green energy is defined as renewable energy sources (i.e. solar, wind, and hybrid), and power generated from WHRS. UltraTech calculates its green energy mix by substituting the percentage share of green energy from its total energy consumption. The historical and baseline data are externally verified and publicly available, which we view positively. In FY24, UltraTech achieved 22% of green energy consumption, with 1,323 million units (MU) produced from WHRS and 583 MU produced from renewable energy.

The KPI indirectly addresses climate transition risks, given its correlation to direct greenhouse gas emissions, which is a key sustainability challenge for the industry (see "ESG Materiality Map: Building Materials, May 18, 2022). Cement production is an energy-intensive business that generates significant greenhouse gas emissions. The utilization of WHRS and renewable energy sources contributes to reduced reliance on captive power plants and thus its direct emissions. Therefore, increasing the share of renewable energy sources contributes to the company's overall carbon-reduction efforts and is also correlated to KPI 1, scope 1 emissions intensity. This KPI is consistent with UltraTech's annual materiality assessment, under the environmental pillar. It is also aligned with the company's sustainability strategy to source 100% of its electricity from renewable sources by FY50 and the EP100 pledge to double its energy productivity by FY35 from FY10 (which it has achieved in FY24).

Solar, wind, and hybrid energy comes from both on-site renewable energy generation projects and purchased renewable sources through physical power purchase agreements (PPAs). As communicated, UltraTech's on-site renewable energy generation assets are also operated and maintained through the PPA model as it requires specialized skills and a separate line of business. That said, UltraTech holds 26% of equity in every on-site renewable energy generation project, ensuring some level of oversight. As of June 30, 2024, the company has a total renewable energy capacity of 650 megawatt (MW) (261 MW from on-site solar projects, and the remainder being off-site solar, wind, and hybrid projects through PPAs). For WHRS, the company has an installed capacity of 301 MW and an additional 149 MW capacity to be commissioned over the next two to three years.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

		Not aligned	Aligned	Strong	Advanced
SPT 1	Scope 1 emissions, measured in $kgCO_2$ per ton of cementitious material ($kgCO_2$/t.cem), should be equal to or lower than 520, by March 31, 2032, a reduction of 27% from a FY17 baseline		**Aligned**		

The ambition, clarity, and characteristics of the SPTs are aligned with the Principles. The issuer's framework outlines various actions to reach the targets. Specifically, UltraTech aims to reduce its scope 1 emissions intensity, expressed in $kgCO_2$/t.cem, by 22% by FY30 and 27% by FY32, from FY17 levels. It also commits to providing annual targets, in the context of loan transactions, in the relevant transaction documentation.

The SPT is compared against seven years of UltraTech's historical performance (FY18-FY24) and baseline year (FY17). Between FY17 and FY24, UltraTech's scope 1 emissions intensity showed an average annual reduction rate of 2.3%, reaching 602 $kgCO_2$/t.cem in FY24. Between FY24 and FY30, the implied average annual reduction rate is 1.2%. The expected average annual reduction rate is 1.7% between FY24 and FY32. Achieving both the FY30 and FY32 targets require a smaller average annual reduction rate than what UltraTech achieved in the past. It limits the SPT's ambitiousness, leaving little room for improvement in the following eight years. That said, we believe incremental reductions are now more difficult to achieve given the company's past substantial emissions intensity improvements from the gradual increase in renewable power generation, improving clinker factor and energy efficiency, and efforts in circular economy. As the company keeps growing its business in the next several years to reach its 200 MPTA capacity target, it will demand continuing decarbonization efforts such as greater investment in renewable energy, use of energy-efficient equipment, and low-carbon product innovation to keep its emissions intensity decreasing over time, being in a sector where that is hard to achieve. However, being an intensity metric, absolute emissions could still increase even when the targets are met, especially when UltraTech is expanding its production capacity, which we view as a clear limitation. In addition, cement demand is projected to continue rising in the longer term in emerging economies that have growing populations and infrastructure need. In the context of India, the country has launched the National Infrastructure Pipeline for 2020-2025, with projected infrastructure investment of US$1.5 trillion.

In 2021, SBTi validated UltraTech's target to reduce scope 1 emissions intensity by 27% by FY32 from FY17 as being aligned with the well-below 2ºC scenario. Based on SBTi data as of August 2024, there are 10 Indian companies (including UltraTech) from the construction and materials sector that have publicly committed to set science-based targets. Six of them have obtained SBTi validation of their near-term targets so far; five are aligned with a well-below 2°C scenario, and one with a 2°C scenario. Additionally, UltraTech has compared its decarbonization pathway against industrial peers, referencing the Transition Pathway Initiative (TPI). As of the assessment date in April 2023, UltraTech's FY30 and FY32 trajectories were assessed as below 2°C scenario by the TPI. The SBTi validation and TPI assessment help benchmark the SPT against market practices. UltraTech intends to upgrade its SBTi targets in 2026 to align with the 1.5 ºC scenario, as SBTi will phase out well-below 2ºC targets from its target validation framework.

The company has detailed its strategy to reach these targets. It includes energy efficiency improvement efforts, investments in renewable power sources and alternative fuel resources, internal carbon pricing, low-carbon product innovation, and new technology research and development (R&D). As communicated, the company is also exploring technologies in carbon capture utilization and storage and carbon offsets. In addition, UltraTech discloses some of the external factors that can impact the target achievement. These include, for example, raw material and fuel cost and availability, technological innovation and scaling, uneven supply of renewable energy, and external events and market conditions.

Baseline	**Scope 1 emissions, measured in kgCO_2 per ton of cementitious material (kgCO_2/t.cem), should be equal to or lower than 520, by March 31, 2032, a reduction of 27% from a FY17 baseline**	
FY17	**FY30**	**FY32**
716 kgCO_2/t.cem	557 kgCO_2/t.cem	520 kgCO_2/t.cem
% cumulative reduction to baseline	22%	27%

SPT 2	Increase green energy consumption from WHRS, solar, and wind power to 85% by FY30, and 100% in FY50	Not aligned	Aligned	**Strong**	Advanced

The ambition, clarity, and characteristics of SPT 2 are aligned with the Principles' requirements, with strong characteristics. The framework clearly mentions the expected observation period, baseline, and trigger events. Specifically, the company plans to increase its share of green energy consumption to 30% by FY25, 45% by FY26, 55% by FY27, 85% by FY30, and 100% by FY50, from a FY24 baseline. It also commits to providing annual targets, in the context of loan transactions, in the relevant transaction documentation.

The SPT is compared against three years of UltraTech's historical performance (FY21-FY23) and baseline year (FY24). In the period, UltraTech's share of green energy consumption showed an average annual increment rate of 23%, reaching 22% in FY24. Meeting the FY25, FY26, FY27, FY30, and FY50 targets will require average annual rates of 36%, 52%, 50%, 48%, and 14%, respectively, from the baseline. While the interim targets are more ambitious than past performance, the FY50 target requires a smaller average annual increment rate than what UltraTech achieved in the past. That said, the long-term FY50 target requires continuous efforts and improvement starting from FY24, over a 26-year timespan. According to UltraTech, comparing to the current energy mix (i.e., 22% of green energy share), the SPT will translate into avoided annual CO_2 emissions of 3.75 $mtCO_2$ by FY27, and 7.09 $mtCO_2$ by FY30. UltraTech has invested US$600 million in WHRS and expects to invest US$120 million in capital expenditures solely to renewable energies until FY27. The total value of its renewable energy assets could reach US$1.8 billion. Therefore, SPT 2 looks ambitious given the financial and human resources needed, since power requirements and regulations differ across the company's extensive manufacturing network.

In addition, UltraTech has compared its green energy consumption target against industrial peers, using the RE100. (RE100 is a global corporate initiative to promote the ambition of 100% renewable electricity.) As of July 2024, four Indian cement companies (including UltraTech) have committed to 100% renewable electricity. Only one of them aims to reach this target by 2030 (20 years earlier) and the other three, including UltraTech, aim to do so by 2050. According to the India Brand Equity Foundation's Cement Industry Report, India has 210 large cement companies--thus, the use of the RE100 assessment help benchmark the SPT against local market practices. This benchmark is also relevant in the context of India, as its total energy consumption is still fossil fuel-heavy, with coal, oil products, and natural gas accounting for 55% in 2021, according to the International Energy Agency. However, benchmarking against global industrial peers could have provided more direct perspective and insight on Ultratech's targets.

The company has detailed its strategy to reach these targets. It includes R&D in reducing reliance on thermal energy in its manufacturing processes, committing to no new investments in thermal power capacity, and replacing fossil fuels with WHRS. In addition, UltraTech discloses some of the external factors that can impact the target achievement. These include, for example, raw material and fuel cost and availability, technological innovation and scaling, uneven supply of renewable energy, and external events and market conditions.

Baseline	**Increase green energy consumption from WHRS, solar, and wind power to 85% by FY30, and 100% in FY50**				
FY24	**FY25**	**FY26**	**FY27**	**FY30**	**FY50**
22%	30%	45%	55%	85%	100%
% cumulative increase to baseline	36%	105%	150%	286%	355%

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

The company's ability or failure to reach its targets will impact the features of the instruments issued under the framework. These potential variations include a coupon adjustment, margin adjustment, premium payment, or additional covenants, which will be specified in the relevant documentations of the specific transaction.

The framework also includes a fallback mechanism such that, if SPTs cannot be calculated, observed or reported in a timely and satisfactory manner, the defined characteristic change will be triggered as if the company fails to achieve the stated SPTs by the target observation period (i.e., January to March of the respective financial years).

In addition, if there are changes in the calculation methodology or significant changes in UltraTech's corporate structure (e.g., acquisition, divestiture, mergers, insourcing or outsourcing), any recalculation or pro forma adjustment will have to be verified and approved by an independent external review, and outlined in the transaction's specific documentation.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

Disclosure score	Not aligned	Aligned	**Strong**	Advanced

UltraTech's overall reporting commitments are aligned with the Principles.

UltraTech will report annually on its performance against the SPTs for all KPIs in the framework. The report will be available in its sustainability report and on the company website.

The report will cover the selected KPIs' baseline, and information that enables lenders and investors to monitor the company's progress on the SPTs. The annual reporting will also include an independent external verification assurance report obtained from a qualified verifier, confirming on the SPTs achievements for each year.

UltraTech will also disclose, when feasible, an explanation as to how key factors, including M&A, are contributing to its sustainability performance, an illustration of the positive sustainability impacts related to performance improvements, and any reassessment of the KPI or restatements of the SPTs.

For sustainability-linked loans specifically, UltraTech will communicate to lenders at least annually to provide information in addition to the performance against the SPT on the related financial impact for the relevant target observation period.

Post-issuance review

The Principles require post-issuance review commitments, including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Our second party opinion is not itself a post-issuance review.

✓ UltraTech's sustainability-linked financing framework is aligned with this component of the SLBP and SLLP.

UltraTech commits to obtaining an independent, qualified and external post-issuance verification of its performance against the SPTs for each KPI, on an annual basis. It will publish the verification assurance report on the company website.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

UltraTech's sustainability-linked financing framework intends to contribute to the following SDGs:

KPI	SDGs		
Scope 1 CO_2 emissions per ton of cementitious product ($kgCO_2$/t.cem)	**§7. Affordable and clean energy**	**§9. Industry, innovation and infrastructure**	**§13. Climate action**
Green energy consumption (%)	**§7. Affordable and clean energy**	**§9. Industry, innovation and infrastructure**	**§13. Climate action**

§The KPI is likely to contribute to the SDGs.