

Barak valley Cements Limited

July 04, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	41.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Total Bank Facilities	41.00 (₹ Forty-One Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Barak Valley Cements Limited (BVCL) takes into account the improvement in operational and financial performance of the company during FY22 (refers to the period April 01 to March 31). The company reported a growth of ~30% in total operating income and ~12% in PBILDT during FY22. The rating continues to derive strength from the extensive experience of promoters in cement industry, company's long track record of operations and established customer base in North-eastern region. However, these rating strengths are partially offset by modest scale of operations, exposure to volatility in input costs, working capital intensive operations and substantial, however reduced exposure towards subsidiaries.

Key Rating Sensitivities:

Positive:

- Improvement in Total Operating income above Rs.250 crores along with PBILDT margins above 12% on sustained basis
- Efficient management of working capital cycle and improvement in liquidity position.

Negative:

- Decrease in PBILDT margins below 10% on a sustained basis
- Substantial decline in sales volume resulting in lower capacity utilization of plants and decline in the total operating income.
- Any higher than envisaged debt funded capex, adversely impacting the capital structure of the company

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations

BVCL has modest scale of operations with installed capacity of 0.33 million tonnes per annum (MTPA) of cement and 0.23 MTPA of clinker. The company has geographical concentration in sales of cement in the North-Eastern region of India. The capacity utilization of the plant improved to 75.68% and 76.74% for cement and clinker production respectively in FY22 from 64.58% and 71.77% in FY21. The company caters to a highly concentrated region with large number of cement manufacturers operating near-by some of which are having large manufacturing capacity. The company has geographic concentration risk since it predominantly markets its products only in the North-eastern states of Mizoram, Manipur, Tripura, Assam, and Meghalaya.

Exposure to volatility in input costs

Limestone, coal, fly ash and gypsum form major raw materials for a cement manufacturer. While the company has captive mines for limestone, it meets its coal and fly ash requirement through open market purchases from the domestic producers. With the company depending on the open market purchases for meeting its raw material requirement, it remains exposed to the risk arising on account of the volatility in the raw material prices

Working capital intensive operations

During FY22, the operations of the company continue to remain working capital intensive characterized by average utilization of ~94.15% over the last 12 months ended May 2022. The gross current asset days stood at 130 days in FY22, and the working capital cycle stood at 45 days for FY22.

Substantial however reduced exposure in subsidiaries

As on March 31, 2022, company has Rs. 12.87 crore as investments in its subsidiaries reduced from Rs.38.17 crores on March 31, 2021. Company has divested its entire stake in three tea subsidiaries namely Singlacheera Tea, Chargolla Tea and Goombira Tea Company Ltd to reinstate their focus on cement industry. As on March 31, 2022, adjusted net worth stood at Rs.74.73 crore and adjusted overall gearing stood at 0.97x. Any further increase in exposure towards subsidiaries shall remain negative from credit perspective

¹Complete definition of the ratings assigned are available at [HYPERLINK "http://www.careedge.in"](http://www.careedge.in) www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Strengths**Improvement in operational and financial performance during FY22**

The company reported improvement in operational and financial performance during FY22 (refers to the period April 01 to March 31) largely due to increase in demand of cement triggered by government infrastructure push and subdued impact of pandemic. The production volume of the company increased by 11.10% from 2.13 Lac tonnes (0.21MT) in FY21 to 2.49 Lac tonne (~0.25MT) in FY22. The company's total operating income also improved to Rs.172.73 crore in FY22 from 132.84 crores in FY21. The PBILDT increased to Rs.19.02 crore during FY22 from Rs.16.89 crore in FY21. The Company has reported loss at net level of Rs. 4.27 crore on account of loss on sale of 3 subsidiaries namely Goombira Tea Company Ltd, Chargola tea Company Pvt Ltd, and Singlacherra tea Company Pvt Ltd respectively. The GCA levels of the company however remains moderate and stood at Rs. 8.52 crores in FY22.

Experienced promoters and long track record of operations in the cement industry

Incorporated in 1999, the company has more than 2 decades of experience in the business of cement manufacturing and sells cement under the brand name 'Valley Strong Cement'. It manufactures Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC) and its target markets are located in the North-Eastern states of India. The promoters of the company have extensive experience in the business of cement manufacturing and are well supported by a qualified management team.

Locational advantage and integrated cement plant with captive limestone mines

The company's cement manufacturing plant has locational advantage as the unit is situated on the National Highway connecting Guwahati and Silchar and located in the Barak Valley region of Badarpurghat, Distt. Karimganj, Assam. The entire area is surrounded by the other states of North-East such as Manipur, Mizoram, Tripura, and southern part of Meghalaya, which are the company's target markets. The company also has captive limestone mines, in its wholly owned subsidiary viz. Meghalaya Minerals and Mines Limited (MMML), in district Jaintia of Meghalaya. It has also set up limestone crushing and galvanized plant for crushing, segregation, and homogenization of limestone. The limestone mines are located within 75 km radius from the cement plant and the company has mining rights till 2052. BVCL is procuring its entire requirement of limestone from its subsidiary.

Established customer base in North-Eastern region of India

BVCL's presence is concentrated in North-eastern region of India and the company sells cement through a distribution network comprising 150-160 dealers, in the states of Assam, Mizoram, Tripura, and Manipur. The company has over 20 years of relationships built with these dealers with satisfactory realization of payments. The company has a diversified and strong customer base including institutions and government agencies like Director General of Supplies & Disposals (DGS&D), 19th Assam Rifles, Executive Engineer Rural Development (EERD), CPWD, ONGC, BSF, etc.

Outlook on cement industry

Growth in India's cement sector has seen a strong bounce back in FY22. The year closed with a growth of 20%, reaching an all-time high, after witnessing a decline of 11% in FY21. Owing to strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to see an upswing in demand in FY23 as well. The industry is likely to move at high single-digit growth on account of government thrust for infrastructure and strong traction in capital expenditure. Various initiatives by the government along with several MSME schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure could create some stress on the profitability of cement companies. Resultant price hikes by cement producers will become evident and might sustain in the near term. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

Liquidity: Stretched

The company has stretched liquidity, characterized by high working capital utilization and low cash and bank balance. The company is expected to generate gross cash accruals of around Rs. 11 crore against which it has repayment obligations of about Rs. 4.66 crore in FY23. As on March 31, 2022, the company has free cash and cash equivalents amounting to Rs.1.12 crore. The average utilization level of the fund-based limits of Rs 25 crore for the trailing twelve months ending May'2022 stood high at 94.15%.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Cement](#)

[Manufacturing Companies](#)

About the Company

Incorporated in April 1999, BVCL is engaged in the business of manufacturing and marketing cements of different grades under the brand name 'Valley Strong Cement'. The manufacturing unit of the company is located at Jhoom Basti, Devendranagar, Badarpurghat, District Karimganj, Assam and the company sells cement in the North-Eastern states of India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	132.82	172.73
PBILDT	16.89	19.02
PAT	3.18	-4.27
Overall gearing (times)	1.01	0.84
Interest coverage (times)	2.10	2.06

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BB; Stable
Term Loan-Long Term		-	-	March 2027	16.00	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BB; Stable	-	1)CARE BB-; Stable (23-Aug-21)	1)CARE B; Stable (31-Aug-20)	1)CARE C; Stable (20-Aug-19) 2)CARE B; Stable (18-Jul-19)
2	Term Loan-Long Term	LT	16.00	CARE BB; Stable	-	1)CARE BB-; Stable (23-Aug-21)	1)CARE B; Stable (31-Aug-20)	1)CARE C; Stable (28-Feb-20)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Long term loan	Detailed explanation
Financial covenants	
i. Promoter contribution	At least 50% of the promoter's contribution for the capex should be brought upfront
ii. Unsecured loan	The borrower shall submit the undertaking that unsecured loan will be subordinated interest free loan and shall not be repaid prior to liquidation of term loan.
iii. D:E ratio	D:E ratio for the capex shall be maintained at 1.58
Non- financial covenants	
i. Dilution of equity holding in Meghalaya Minerals and Mines Limited	The borrower shall not dilute its 100% equity holding in the subsidiary company Meghalaya Minerals and Mines Limited

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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