Green Valliey Industries Limited

February 16, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	36.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term Bank Facilities	25.00 (Reduced from 30.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**61.00 (Rs. Sixty-One Crore Only)**		

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Green Valliey Industries Limited (GVIL) derives comfort from prepayment of entire long-term debt the company in December 2021 leading to substantial improvement in the capital structure and debt protection metrics of the company. The rating also takes into account the experience of the promoters, satisfactory financial performance of the company in FY21 and H1FY22 albeit moderation in margins owing to increase in power, fuel and freight cost, improved capacity utilisation since Q4FY21, sales mix containing OPC and PPC cement and adequate liquidity. The rating is, however, constrained by small scale of operations, past delays and the restructuring of debt, competition with established groups in the north-east region, no ongoing limestone linkage, profitability susceptible to volatility in prices of raw materials, geographical concentration risk, project risk associated with Capex for enhancement of clinker capacity, pending payment of undisputed statutory liabilities, working capital intensive nature of operations and cyclicality associated with the cement industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Implementation of Cost optimization measures like backward integration through operationalization of limestone mines
- Timely completion of capex within the envisaged cost and deriving benefit from the same

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any further major debt ridden capex leading to deterioration in capital structure with gearing above 1.0x
- Dip in PBILDT margins below 8% on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

GVIL was promoted by Late Mr G.N. Agarwal and is engaged in the manufacturing of cement since January 2011. The promoters, over the years, have been successful in establishing the 'MAX Cement' brand in the north-eastern cement market. After the demise of Late Mr G.N. Agarwal in 2011, GVIL is currently managed by Mr Praveen Agarwal (Chairman) and Mr Vineet Agarwal (VC and MD).

Improvement in capacity utilization in H2FY21 and H1FY22 post Covid-19 pandemic

The capacity utilisation (CU) of the company has been high given the focus on both trade and non-trade sales. CU for the cement production of company had been improving over the last two years (post capacity increase in FY18) from 81% in FY19 to 92% in FY20 owing to increase in cement volume. The capacity utilisation declined in Q1FY21 to 50% owing to Covid-19 induced lockdowns. Subsequently, CU improved from Q2FY21 onwards with the gradual lifting of lockdowns and CU in Q4FY21 stood at 110%.

The sales momentum continued in Q1FY22 (CU at 96%), although there had been some effects of second wave of Covid-19 by way of transport restrictions. The CU moderated in Q2FY22 to 75%.

Satisfactory financial performance in FY21 despite Covid-19 induced lockdowns; albeit reduction in margins owing to increase in power, fuel and freight cost

GVIL's income from operations stood at Rs.320 crores (including sales of traded goods of Rs.15 crores in FY21) as against Rs.325 crore in FY20 (Nil sales of traded goods). However, PBILDT per ton moderated by ~26% y-o-y in FY21 owing to ~20% increase in power and fuel cost per ton and ~22% increase in freight cost per ton during the period, as a result of increase in global fuel cost. The power and fuel prices further increased in H1FY22 which led to further moderation in PBILDT/ ton by ~25%. The increase in cost were marginally set off through increase in realisations by ~7% in FY21 and further by ~4.5% in H1FY22, though not passed on completely. PBILDT margins reduced substantially from 27.26% in FY20 to 18% in FY21 and

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

further to 12.22% in H1FY22. PBILDT margins without the subsidies stood at 14.65% (22.68% in FY20).
The company follows the policy of writing back principal and interest foregone against bank loan, post restructuring and takeover of debt by ARC, after full repayment of debt. The company has prepaid its loan from ARC (Loan taken from Indian Bank) in December 2021, and the company will write back the interest and principal amounts due in the respect of the loan in FY22.
The company earned PAT of Rs.46.72 crore in FY21 as against Rs.91.47 crore in FY20 (after writing back interest payable on bank loans to the tune of Rs.1.86 crore in FY21 as against Rs.16.94 crores in FY20). PAT for H1FY22 stood at Rs.15.41 crore on a revenue of Rs.186.50 crore.
The company has no captive power plant and has switched from sourcing its power requirement from Indian energy exchange (IEX; wherein power is purchased in auction through daily bidding process) to Meghalaya power distribution Co. Ltd. (MPDCL) at Rs.4.9 per unit from January 14, 2021, after a new sub-station of the state board was established close to the plant. The company plans to procure 100% of its power requirement from MPDCL going ahead, and this will help the company to procure power at fixed prices. On an average, per ton of clinker and cement produced by the company requires power consumption of 73.5 kwh and 32.7 kwh respectively.
The company has provided corporate guarantee in favour of fund-based (Rs.2 crore) and non-fund-based (Rs.4 crore) facilities availed by Nortech Power Projects Pvt Ltd which is a group company holding around 8% shares in GVIL.

Improvement in capital structure with restructured debt prepaid fully in Dec 2021
The company follows the policy of writing back of principal and interest forgone against bank loan, post restructuring and takeover of debt by ARC, after full repayment of debt.
The company has prepaid the loans of ARC in December 2021, after which the company has no long term debt repayment obligations. Further, the company has allotted shares to pay off unsecured loans from related parties and group companies in FY21, leading to increase in equity capital of the company by Rs.47.24 crores. Unsecured loans have reduced from Rs.49.63 crores as on March 31, 2020 to Rs.3.24 crore as on March 31, 2021 as a result of such allotment.
The net worth of the company improved from negative Rs.7.44 crores as on March 31, 2021 to positive Rs.97.47 crores as on March 31, 2021 with the allotment of new shares and accumulation of profit for FY21. Overall gearing of the company stood at 0.93x as on March 31, 2021, which will substantially improve till March 31, 2022 owing to complete prepayment of the long term debt.
The debt coverage indicators also remained comfortable as on March 31, 2021 with interest coverage and TD/GCA of 22.37x and 1.64x respectively.

Key Rating Weaknesses

Past delays and restructuring of debt
GVILs' account was declared NPA in 2014 owing to delays in servicing repayment dues of its project loans. Two of its bank loans were acquired by an asset reconstruction company (ARC) and the third lender went into a one-time settlement or OTS with the company. The company has completely repaid the loan outstanding to the ARC in December 2021.

Small scale of operations and competition with established players in north-east region
The company sells cement under the brand name 'Max Cement' in the north-eastern markets, majorly in Assam and Meghalaya. The plant is located in close proximity to limestone mines. Cement being a bulky product and the hilly terrain of north-eastern region makes the transportation over long distance expensive, and accordingly, the reach for the cement players operating in the region is limited. The company sells its product within an average radius of around 300 kms from its plant in Meghalaya.
GVIL faces intense competition from established players like Meghalaya Cement Ltd., Dalmia Cement Bharat Limited and Star Cement Limited as the installed capacity (aggregate capacity of 7.2 million tonnes) of these three-group account for majority of the capacity in the region. Besides, the company also faces competition from smaller players.

No limestone linkage till date and profitability susceptible to volatility in prices of raw materials and finished goods
Limestone is the primary raw material for manufacturing cement. Furthermore, the industry being power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet coke and crude oil. At present, the company does not have any backward integration. However, the company has been allotted three limestone mines within a radius of 6 to 20 kms from the plant, having aggregate mineable reserves of 31.10 million tons. The company is in process of acquiring various approvals like environmental clearance, forest clearance, and approval of mining plan from Indian bureau of Mines (IBM) to operate the mines.
Traditionally, Meghalaya cement plants have been sourcing coal for its operations from local mines operated by local entities. In 2014, the National Green Tribunal put a stop to local coal mining and requested Coal India Limited to auction the coals already mined in a compliant manner. Over the last two years, cement players in Meghalaya including GVIL have been buying coal from various sources including traders/imports and Coal India supplies from Bengal & Assam. In order to secure itself from wide volatility and variation in coal quality, GVIL has started to buy coal in bulk from E-auction from Eastern Coalfield Ltd. - a subsidiary of Coal India Ltd. Rest of the coal is sourced from local purchases.
Other major raw materials like fly ash, gypsum, etc, are also purchased from the open markets and the company has no long-term contracts for raw material purchased. Given that the raw material cost is the major cost driver and the prices of which are volatile in nature, the profitability of the company is exposed to risk associated with volatility in prices of raw material. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse

movement in the prices of raw materials or the fuel cost without a corresponding movement in the price of the cement can affect the profitability of the company.

Pending payment of undisputed statutory liabilities
The company had undisputed statutory dues, outstanding for more than 6 months amounting to Rs.20.22 crores as on March 31, 2021 in its books. Provisions for the dues have already been made in the books. As articulated by the management, the above dues are under negotiation with the respective government authorities.

Project risk associated with Capex for enhancement in clinker capacity
GVIL is in the process of enhancement of its clinker capacity at its existing facility at Nongsning Village, Meghalaya from 0.50 million tonne to 0.56 million ton per annum at a projected cost of Rs.28 crore, which is to be funded through internal accruals and expected to be completed by March 2022. The company has already incurred Rs.18 crore pertaining to this project by Dec 2021.
Further, the company is further planning to increase capacity of its clinker capacity by 300 tons per day (~1.08 lakh tons per annum), at an estimated cost of Rs.60 crores over a period of two years (to be funded by a mix of debt and equity in the ratio of 60:40). The company is in talks with lenders for the debt facility. The enhanced capacity is expected to be commissioned in FY24.

Working capital intensive nature of operations
The company's operation is working capital intensive in nature as it has to offer some credit period to its customer. High inventory of stores and spares are also required to be maintained, as the plant is in remote location, and high value spare parts, which will take long time to repurchase, are maintained at the plant. The operating cycle of the company stood at 80 days in FY21 against 77 days in FY20.

Cyclicality associated with the cement industry
Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realizations.

Liquidity: Adequate
The liquidity position of GVIL is adequate. The company has prepaid its entire debt in December 2021. Hence the company has no long-term debt repayment till FY23 when the company plans to raise ~Rs.36 crore for funding its clinker capacity expansion for ~Rs.60 crores. The unencumbered liquid investment/ cash & bank balance stood at Rs.36.71 crore as on Dec 31, 2021 (parked in current accounts mutual funds and fixed deposits). The company is also in the process of availing Rs.25 crore cash credit limits which would aid liquidity.
As articulated by management, the company will maintain liquidity of ~Rs.25 crores going ahead at all times.

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

About the Company
GVIL manufactures ordinary portland cement (OPC) and portland pozzolana cement (PPC) grade cement in Nongsning Village, Meghalaya. The plant started commercial operations from January 2011 and has total installed capacity of 0.59 million tonnes per annum. The cement is sold under the brand "MAX" by the company to semi-urban/rural market in north-east state and large government projects as key consumers.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	325.07	319.65	186.50
PBILDT	88.61	57.54	22.79
PAT	91.47	46.72	15.41
Overall gearing (times)	-20.47	0.93	0.92
Interest coverage (times)	12.74	22.37	42.20

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	-	36.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (19-Feb-21)	-	-
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (19-Feb-21)	-	-
3	Term Loan-Long Term	LT	36.00	CARE BBB; Stable				

* Long Term / Short Term

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

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 instrument: CARE Ratings Ltd. 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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