

Green Valliey Industries Limited
February 19, 2021

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	77.60	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Facilities	77.60 (Rs. Seventy-Seven Crore and Sixty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Green Valliey Industries Limited (GVIL) derives strength from experience of the promoters, improvement in financial performance of the company in FY19 and FY20 driven by improved capacity utilization, high share of institutional sales leading to better profitability, higher sales realization and cost optimization measures undertaken leading to improved PBILDT per ton of cement, sales mix containing OPC and PPC cement, eligibility for subsidies, substantial reduction in debt owing to restructuring leading to satisfactory debt protection metrics and adequate liquidity. The ratings are 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 albeit the same is under process, profitability susceptible to volatility in prices of raw materials, geographical concentration risk, project risk associated with Capex for enhancement in clinker capacity, pending payment of undisputed statutory liabilities, working capital intensive nature of operations and cyclical nature associated with the cement industry.

Rating Sensitivities**Positive factors**

- Implementation of Cost optimization measures like backward integration through operationalization of limestone mines
- Sustenance of current scale of operations and profitability on a sustained basis

Negative factors

- Any major debt ridden capex leading to deterioration in capital structure
- Dip in realisation per ton by 5% leading to reduced profitability
- Any non-payment of scheduled obligations as per settlement agreement with ARC

Detailed description of the key rating drivers**Key Rating Strengths****Experienced promoters**

GVIL was promoted by Late Shri G.N. Agarwal and is engaged in manufacturing of cement since Jan 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 Shri G.N. Agarwal in 2011, GVIL is currently managed by Mr. Praveen Agarwal (Chairman) and Mr. Vineet Agarwal (VC and MD).

High capacity utilization, albeit decline in H1FY21 owing to Covid-19 pandemic

The capacity utilisation (CU) of the company has been high given focus on both trade and non-trade sales. The company increased its clinker capacity from 4.13 lakh ton in FY17 to 4.95 lakh ton in FY18 and cement capacity from 4.29 lakh ton in FY17 to 5.94 lakh ton in FY18. CU for the cement production of company had been improving over the last two years from 77% in FY18 to 92% in FY20 owing to increase in cement volume. However, the capacity utilisation declined in H1FY21 to 60% owing to lockdown called by state and central governments to combat spread of Covid-19 virus, from March 23, 2020 (the operations commenced from May 2020 after conforming to the guidelines of the regulatory authorities and taking necessary permissions)

The company sells a part of its clinker production (less than 10%) in the open market. The capacity utilisation of clinker division also improved from 87% in FY18 to 92% in FY20. However, the same was also impacted by the Covid-19 lockdown in H1FY21 and the CU for clinker stood at 74% during the period.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Improvement in financial performance in FY19 and FY20 driven by better sales realization and reduction in freight, power and fuel cost

GVIL's income from operations improved by around 16% from Rs.246 crore in FY18 to Rs.286 crore in FY19 and further by 6% in FY20 to Rs.303 crore, on the back of increase in sales volume from 4.59 lakh ton in FY18 to 5.37 lakh ton in FY20 and increase in average sales realisation by around 7% from FY18 to FY20.

PBILDT margins (including subsidy and other income) have improved from negative 1.62% in FY18 to 27.65% in FY19 and 27.26% in FY20 mainly on account of increase in sales realisation, and reduction in various cost like power & fuel and freight cost. However, subsidies and government grants were accounted for amounting to Rs.18.38 crore and Rs.19.24 crore in FY19 and FY20 respectively along with writing back creditors to the tune of Rs.4.92 crore and 1.92 crores respectively to the PBILDT in FY19 and FY20. Adjusted PBILDT margins without the subsidies and write backs stood at 21.76% and 22.19% in FY19 and FY20 respectively.

The company follows the policy of writing back interest payable against bank loan, post restructuring and takeover of debt by ARC, after full repayment of debt. The company fully paid off debt of two lenders (post restructuring) in FY19 and FY20, aided by improved profitability and receipt of old dues of government subsidies. The company earned PAT of Rs.121.7 crore in FY19 (after accounting for prior period government incentives, transport subsidies and write back of interest payable on bank loans to the tune of Rs.51.97 crores) and Rs.91.47 crore in FY20 (after writing back interest payable on bank loans to the tune of Rs.16.94 crores).

The company has no captive power plant and has to source all its requirement of power from energy exchange (IEX) wherein power is purchased in auction through daily bidding process. Per unit cost of power from IEX moderated in FY20 leading to reduction in power cost in FY20. Though the power supply through IEX is regular, but there is constant variation in purchase price of power. However, the company has currently tied up with a local distribution company for supply of power at competitive rate. This will help the company to procure power at fixed prices. On an average, per ton of clinker and cement produced by the company required power consumption of 73.5 kwh and 32.7 kwh respectively in FY20.

In H1FY21, PBILDT margins improved to 32.39% on the back of improved realisation despite lower sales volume during the period owing to Covid-19 lockdown. Further, PAT margins stood at 22.52% in H1FY21.

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 14% shares in GVIL.

Substantial reduction in debt and satisfactory debt protection metrics

The net worth of the company stood at negative Rs.134.09 crore and Rs.7.44 crore respectively as on March 31, 2019 and as on March 31, 2020 respectively. However, the same increased to positive Rs.19.81 crore as on September 30, 2020. Further, the net worth improved by Rs.47.24 crore during Q3FY21 owing to allotment of shares by the company to pay off unsecured loans from related parties and group companies. Unsecured loans have reduced from Rs.49.63 crores as on March 31, 2020 to Rs.1.50 crore as on Dec 31, 2020 as a result of such allotment.

Total debt/GCA of the company improved from 1.74x as on March 31, 2019 to 1.14x (debt adjusted for actual payable amount after complete write backs) as on March 31, 2020. Interest coverage was stable at 12.74x as on March 31, 2020 compared to 12.73x as on March 31, 2019.

Eligible for Subsidy under North-East Industrial and Investment Promotion Policy (NEIIPP)

GVIL by its virtue of being present in north eastern region has been eligible for certain government incentives including excise/GST refund, insurance subsidy, interest subsidy and transport subsidy for industrial promotion in Meghalaya. Transport subsidy was available for 5 years period which lapsed in 2016 and the GST refund and other subsidies are available till FY21. The company has total outstanding subsidies of Rs.2.57 crores and GST refund of Rs.36.89 crores pending to be received as on December 31, 2020. As per the management, subsidy collection takes around 1.5 to 2 year from the time they are due. The company recognises government grants and subsidies in books of accounts on accrual basis and on reasonable certainty that the same will be received in future. Hence, all the above mentioned subsidies and refunds due till date have already been accounted for as and when the same have fallen due.

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 onetime settlement or OTS with the company. During 2017- 2019, GVIL has received old dues of incentives and subsidies from the government which has helped them completely payoff one ARC loan and full cash OTS with the third lender. Also, an unsecured debt of Rs.25 crore was settled at Rs.14.10 crore with last installment paid in July 2020. Overall debt obligations in the company now stand at ~Rs.49.03 crore (as on Dec 31, 2020) out of which Rs.47.60 crore is payable to ARC (Net settlement amount) to be repaid through structured quarterly repayments till Dec 2022 and equipment loan of Rs.1.43 crore.

As per the terms with the ARC the restructuring deal will remain intact only if the company meets all conditions mentioned in

the restructuring agreement. In event of default, the company will be liable to pay the original amount due (Rs.84 crores is projected to be written back after payment of last installment).

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. Assam contributed to around 66% of the total sales in FY20 followed by Manipur (8.51%), Mizoram (8.27%) and Meghalaya (7.76%). The plant is located in close proximity to limestone mines, and 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 ~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. Further, 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 3 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. The management expects operations at first mine to commence from Q1FY22 and expects savings of Rs.60 per ton of limestone mined through the captive mines (5.49 lakh ton limestones consumed in FY20). The cost of operationalizing the mines would be incurred over a period of 4-5 years.

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 to take over the activity in an organized and environmentally 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. This may continue for some time till Coal India is able to completely take over mining activity for coal in Meghalaya. 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. 24.85 crores as on March 31, 2020 in its books. Provisions for the dues have already been made in the books. As per discussion with the management, the above dues are under negotiation with the respective government authorities. The management expects some reduction in the above mentioned dues post negotiations. The rest of the dues will be payable as per the demands raised by the government.

Project risk associated with Capex for enhancement in clinker capacity

GVIL is expected to incur Rs.28 crores capex which includes enhancement of its clinker capacity at its existing facility at Nongsning Village, Meghalaya by 0.83 lakh ton to 5.78 million ton per annum at a projected cost of Rs.18 crore. Apart from the same, around Rs.4 crores is to be incurred for laying down the transmission line from nearby sub-station of MPDCL and Rs.6 crore is planned to be incurred for setting up the limestone mines in FY22. As per the management, the company has already incurred Rs.15-16 crores for the clinker capacity enhancement and Rs.4 crore for setting up the transmission line for its power requirement (the company has commenced sourcing power from the sub-station since January 14, 2021). The company plans to raise Rs.20 crore debt against the above mentioned capex.

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 77 days in FY20 against 78 days in FY19 and 75 days in FY18.

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.

Impact of Covid-19 Pandemic on GVIL

During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments from March 22, 2020. Consequently the manufacturing and sales operations of GVIL were impacted due to such temporary lockdown. The operations have been commenced from May 2020 after conforming to the guidelines of the regulatory authorities and taking necessary permissions. Sales and profitability of the quarter were adversely impacted due to the lockdown. As per the management, no material impact is expected due to Covid-19 on the carrying value of assets and liabilities.

Liquidity: Adequate

The liquidity position of GVIL is adequate with the company clearing all dues on time since November 2018. The company has repayment obligation of Rs.9.82 crores in FY21 out of which Rs.7.44 crores has already been paid till Dec 31, 2020. The company expects to earn GCA of Rs.51 crore in FY21 (Rs.32 crore earned in H1FY21) which is sufficient to meet scheduled repayment obligations. The company had not availed the moratorium facility, provided by bankers in view of Covid-19 pandemic.

Although, the company has no working capital limits it is in the process of availing Rs.30 crore cash credit limits mainly to fund bulk purchase of coal. Liquid investment/unencumbered cash & bank balance stood at Rs.33.71 crore as on Dec 31, 2020 (parked in current accounts and fixed deposits).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for cement companies](#)

[Financial Ratios – Non-Financial Sector](#)

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

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)- Standalone	FY19 (A)	FY20 (A)
Total operating income	309.50	325.07
PBILDT	85.58	88.61
PAT	121.70	91.47
Overall gearing (times)	NM	NM
Interest coverage (times)	12.73	12.74

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Proposed fund based limits	-	-	-	30.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	Dec 2022	47.60	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Proposed fund based limits	LT	30.00	CARE BBB-; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	47.60	CARE BBB-; Stable	-	-	-	-

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 the Instrument	Complexity Level
1.	Fund-based - LT-Proposed fund based limits	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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