

Barak Valley Cements Limited

June 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	39.00 (Reduced from 41.00)	CARE BB+; Stable	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Barak Valley Cements Limited (BVCL) factors in the sustained satisfactory operational and financial performance of the company characterised by improvement in the PBILDT margins and debt coverage indicators along with stable scale of operations during FY23 (refers to the period April 01 to March 31). 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.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Increase in TOI of the company to above Rs. 200 crore with PBILDT margins above 14% on a sustained basis
- Efficient management of working capital cycle and resultant improvement in liquidity position.

Negative factors

- Decrease in TOI of the company to below 150 crore along with PBILDT margins below 10% on a sustained basis.
- Increase in overall gearing to above 1.00x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Care ratings believe that BVCL's business and financial profile will continue to remain satisfactory supported by its established customer base in the North-eastern region along with improving profitability margins.

Detailed description of the key rating drivers:

Key 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 78.41% and 86.15% for cement and clinker production respectively in FY23 from 75.68% and 76.74% in FY22. The company lacks economies of scale and operational efficiencies that are enjoyed by larger established players present in the region. Further 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

The operations of the company continue to remain working capital intensive as characterized by average utilization of 95.88% over the last 12 months ended March 2023. The gross current asset days stood at 156 days in FY23 which were 130 days in

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

FY22, and the operating cycle stood at 56 days for FY23 as compared to 45 days in FY22. The increase in operating cycle is due to increase in inventory days to 68 days as on March 31, 2023, as compared to 50 days as on March 31, 2022. This increase is led by increase in raw material and WIP inventory. The collection period and creditor days remain majorly in line with previous year (FY22).

Key strengths

Improvement in PBILDT Margins and debt coverage indicators of the company

The company reported improvement in their PBILDT margins along with stable TOI during FY23 (refers to the period April 01 to March 31). The PBILDT margins of the company stood at 13.13% during FY23 which improved from 11.01% in FY22 due to decrease in input cost of clinker which was partly procured from suppliers in the past. Post the capex undertaken in FY22 which increased the clinker capacity to 0.23 MTPA from 0.20 MTPA the average input cost of clinker has reduced. The production volume of the company remained stable at 0.25 MT (2.58 Lac tonnes) during FY23 which was 0.24 MT (2.49 Lac tonnes) in FY22. The debt coverage indicators of the company also improved as marked by interest coverage ratio of 2.63x as on March 31, 2023 as compared to 2.06x as on March 31, 2022.

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.

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.

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. 13.50 crore against which it has repayment obligations of about Rs. 6.68 crore in FY24. As on March 31, 2023, the company has free cash and cash equivalents amounting to Rs.0.11 crore. The average utilization level of the fund-based limits of Rs 25 crore for the trailing twelve months ending March '2023 stood high at 95.88%

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 and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

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, 2022 (A)	March 31, 2023 (AB)
Total operating income	172.73	174.46
PBILDT	19.02	22.90
PAT	-4.27	5.80
Overall gearing (times)	0.84	0.63
Interest coverage (times)	2.06	2.63

A: Audited AB: Abridged; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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	14.00	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BB+; Stable	-	1)CARE BB; Stable (04-Jul-22)	1)CARE BB-; Stable (23-Aug-21)	1)CARE B; Stable (31-Aug-20)
2	Term Loan-Long Term	LT	14.00	CARE BB+; Stable	-	1)CARE BB; Stable (04-Jul-22)	1)CARE BB-; Stable (23-Aug-21)	1)CARE B; Stable (31-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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About us:

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