Shree Cement Limited (Revised)

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,050.00	CARE AAA; Stable	Reaffirmed
Short Term Bank Facilities	2,000.00 (Enhanced from 1,200.00)	CARE A1+	Reaffirmed
Non Convertible Debentures	700.00	CARE AAA; Stable	Reaffirmed
Commercial Paper	500.00	CARE A1+	Reaffirmed
Issuer rating Issuer Rating	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings to bank loan facilities, non-convertible debentures and commercial paper of Shree Cement Limited (SCL). SCL's issuer rating has been withdrawn on the client's request.

The rating assessment continues to consider SCL's strong competitive position in grey cement manufacturing supported by installed capacities of 56.40 MTPA in India majorly spread across Northern and Eastern Regions of India. Its strong market position is amplified by the company's significant penetration in Northern, followed by Eastern and Central India regions and modest presence in Western and Southern India. Penetration in existing markets and diversification in newer region is expected with the company's current capital expenditure (capex) plan. The company has established a healthy brand recall of its cement products, which is supported by its distribution network on ground, leading to higher retail trade mix. Cost competitiveness is driven by presence of captive limestone mines and significant captive power generation. This is further boosted by significant green power mix, which is low cost and environment friendly. High proportion of blended cement reduces its fuel requirements. The company continues to have sound operating efficiencies. Ratings also factor in SCL's robust financial profile, which is characterised by its healthy capital structure and strong debt coverage indicators. These strengths are partially offset by cyclicality in the cement industry and input cost volatility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Decline in the operating performance, resulting in net debt/PBILDT above 1x on a sustained basis
- Any significant reduction in the liquidity levels of the company either on account of significant debt funded capex or deterioration in the business risk profile

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken a consolidated view of the parent (SCL) and its subsidiaries owing to significant business, operational and financial linkages. Details of subsidiaries and associates consolidated as on March 31, 2024, are listed under Annexure - 6.

Outlook: Stable

The rating outlook "Stable" indicates expected sustenance of its strong market position in the cement business, strong operating efficient and robust financial risk profile. The company is expected to continue growing its scale of operations supported by incremental cement capacities at a healthy operating profitability margin. The company is expected to maintain its net cash position and strong solvency ratios despite the capital expenditure programme.

Detailed description of key rating drivers:

Key strengths

Strong competitive position supported further by diversified geographical profile

SCL is among the top three cement manufacturers in India with its 56.40 MTPA cement capacity as on June 30, 2024, underpinning its strong market position. Already entrenched as a strong player in Northern India deriving ~43-44% of its sales volume, SCL has been gradually diversifying its geographical presence. It generates 26-27% sales volume from the eastern region and 16-17% from the central region. West and South India generate modest sales volume with contribution of 8%-9% and 5% respectively. The company has 29.80 MTPA of cement capacities in northern India and 17.60 MTPA of cement capacities in eastern

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

India followed by modest capacities of 3 MTPA and 6 MTPA of cement capacities in west and south India respectively. The company's current capex plan is targeted to reach 80 MTPA, for diversifying further in southern and central region, where it has limited cement capacity. The company has recently commissioned its Guntur (Andhra Pradesh) integrated cement capacity of 3 MTPA in April 2024 and is undertaking capex for integrated cement capacities in Pali (Rajasthan) of 6 MTPA and Kodla (Karnataka) of 3 MTPA and split grinding unit in Raipur (Chattisgarh) and Etah (Uttar Pradesh) of 3.40 and 3 MTPA respectively.
This strong competitive position is also reflected in its vast scale of operations, having sold 35.54 million tonnes (MT) of cement and clinker in FY24 and registering volumetric growth of 11.70% year-on-year (y-o-y). However, blended realisation (cement + clinker) was lower in FY24 at ₹4818 per tonne against ₹4896 per tonne in FY23. The company recorded 15.20% growth in net sales in FY24 y-o-y to ₹20,092 crore. H1FY25 is expected to be relatively weaker for the cement industry considering general elections, process of resource allocation to respective ministries, heatwaves and significant rainfall. Overall, CARE Ratings expects volumes to see modest growth in FY25, with realisations moderating further amidst intensive competition intensity in a subdued demand scenario. Cement players are expected to push for higher volumes in H2FY25 which may impact realizations.

Large retail trade mix driven by healthy brand recall and established distribution network
Despite being a commoditised business, SCL has been able to establish its brand over the years. The company has diversified brand portfolio consisting of Bangur Magna, Bangur Powermax, Bangur Rockstrong and Bangur Jungrodhak. SCL has a dealer base of 21,053 for selling cement to end-customers as on March 31, 2024. The company largely sells blended cement, which is consumed by retail trade segment. The company's retail trade mix is 76% (81%) in FY24 (FY23) in overall volumes.

The company has been focussing on premiumisation of its product portfolio with Bangur Magna being its key premium cement brand. The company has increased its premium product mix from 7.1% of trade mix in FY23 to 8.7% in FY24.

Sound operating efficiencies
The company's large scale of operations is supported by its internal operating efficiencies allowing it to control costs and have a wide market reach. The company has established captive thermal power plant (TPP) of 503 MW, WHRS of 276 MW and renewable energy (solar and wind energy) of 236 MW as on March 31, 2024. This makes the company self-sufficient for significant portion of its power requirements and being cost effective. With 512 MW of captive green power (WHRS, solar and wind), the company has among the highest green power consumption mix in the Indian cement industry, which is not only environment friendly but also low cost compared to conventional power. The company increased its green power consumption to 56% in FY24 from 51% in FY23 at standalone level. The company has captive limestone reserves to fully meet its requirements in the long term. Apart from this, the company has split grinding units (GUs), which help accessing wider market. Its multi-fuel kilns and production of higher blended cement of its total sales volumes ~75%, helps limiting fuel costs for kiln. The company is also increasing its usage of alternative fuels and raw materials usage in kiln, which costs lower than ₹1 per kilo calories. The thermal substitution rate was 2.37% in FY24 decreasing from 3.50% in FY23.

These factors have helped the company maintain sound operating margins in the range of 22-30% in five fiscal years through FY24, though moderation was observed in FY23 considering significant cost inflation particularly in power & fuels costs. PBILDT per tonne was ₹1147 per tonne in FY24 from ₹860 per tonne in FY23. Despite, significant moderation in fuel costs observed in FY25, operating margins are expected to moderate considering expected moderation in realisations and lower capacity utilisation expected for newer plants leading to stabilisation costs for new units.

Robust capital structure and debt coverage metrics; despite debt funded capex plan
The company's net worth stood strong at ₹20621 crore as on March 31, 2024, against ₹18,602 crore as on March 31, 2023. The company has also a deleveraged balance sheet, which can be observed from its overall gearing remaining in the range of 0.13x-0.20x in the last three fiscal years ending March 31, 2024. On net basis, the company has net cash. This is supported by healthy cash flow from operations in the last few fiscals and strong cash and cash equivalents (including investments), which limited reliance on debt for capex and working capital requirements. The company has a roadmap to increase its capacity to 80 MTPA and accordingly has accelerated its capex spending post the slowing it down due to COVID-19. The company is expected to undertake capex of ~₹12000 crore in between FY25-27 at a consolidated level. These are largely funded by internal accruals and the significant liquid investments built up in the last few years. The company's overall capital structure is expected to remain robust in the medium term.

With comfortable debt position and healthy profitability, the company's debt coverage metrics also remained strong. The interest coverage ratio was 17.50x (11.26x) in FY24 (FY23) and net debt to PBILDT is negative considering net cash position of the company. These metrics are expected to remain strong in the medium term.

Key weaknesses
Cyclicality of the cement industry
The cement industry is highly cyclical and depends largely on the country's economic growth. There is a high degree of correlation between the GDP growth and growth in cement consumption. Cement, being a cyclical industry, goes through phases of ups and downs, and accordingly impacts unit realisations.

Exposure to volatile input costs and price realisations
The company is exposed to commodity price risk, arising from raw material price fluctuation (gypsum, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for power generation to run its plants and fuel for kilns. In

the recent past, the cement industry witnessed significant spike in power and fuel costs; post pent-up demand for fuel post multiple COVID-19 waves and vaccinations. Russia-Ukraine war exacerbated fuel cost in FY22 and FY23. However, fuel costs have moderated in the last 12-15 months, which reflected in improved profitability of SCL as well. The company's profitability will remain exposed to significant input cost volatility and cement price realisation, which depends on each region's demand and supply dynamics (volume growth and installed capacity) to cater to the demand in a particular region.

Liquidity: Superior

SCL's strong liquidity is supported by healthy cash & cash equivalents and significant generation of gross cash accruals (GCA) and moderate bank limit utilisation. The company had generated GCA of ₹4440 crore in FY24, which is expected to moderate in FY25 to ~₹3600-3700 crore considering moderation in cement demand observed in FY25. The company's repayment obligations (including lease liabilities) in FY25 is ~₹325 crore and ₹40 crore in FY26, which can be easily serviced by its internal accruals. The company has substantial liquid investments to meet its capex requirements. The company had free cash & cash equivalents of ₹277 crore as on March 31, 2024, while investments were ₹7556 crore. The company has significant cushion in its working capital limits for incremental working capital requirements and it has the capability to raise funds from the markets at competitive rates. SCL has robust capital structure, which provides headroom for incremental debt if required. The company's management is expected to keep around ₹4000-₹5000 crore of liquidity in hand.

Environment, social, and governance (ESG) risks

The cement sector has a significant impact on the environment owing to higher emissions, generation of waste and consumption of water. Cement manufacturing process is energy intensive and its high dependence on natural resources, such as limestone, coal as key raw materials are ley reasons. Due to nature of operations affecting local community and health hazards involved in cement manufacturing process, the sector also has a social impact.

SCL has continuously focused on mitigating its environmental and social risks. CARE Ratings believes SCL's commitment to ESG will support its strong credit profile.

Key ESG highlights of SCL:

Environment

- In FY24 (FY23), the company's share of renewable energy in overall energy consumption was 55.9% (51.1%), which is one of the best in the industry.
- Planned a capex towards setting up of solar power plants, which will further enhance proportion of clean energy usage in total power consumption.
- Net specific Scope 1 emission stood at 542 kg CO2e / tonne of cementitious material and specific Scope 2 emissions were at 10.5 kg CO2 / tonne of cementitious material in FY24. Combined specific Scope 1 and Scope 2 emissions stood at 552 kg CO2e/tonne cementitious material in FY24 compared to 535 kg CO2e/ton cementitious material in previous year.
    - Usage of alternate fuel of 13.44% in FY24 compared to 14.70% in FY23 to conserve natural resources. TSR reduced to 2.37% in FY24 from 3.50% in FY23.
    - Use of alternative raw materials reduced from 27.97% in FY23 to 24.41% in FY24.
- Avoided approximately 7.02 million tonnes of CO2 by producing blended cement in FY24.

Social

- The company has undertaken CSR initiatives towards women empowerment and their skill development, community infrastructure and rural development, support to dependents of martyred soldiers, social welfare and promotion of art and culture, sustainable livelihood in agriculture and non-agriculture both, support to senior citizens, healthcare, hygiene, cleanliness and access to drinking water, promoting sports, educational initiatives, etc.
- With regards to its workforce, the company had undertaken 1,14,000+ man hours of training.

Governance

- The governance structure is characterised by majority board members being independent directors, split in chairman and executive positions, dedicated investor grievance redressal mechanism and required disclosures. The board average meeting attendance in FY24 was 73% and average tenure of board members was 11.9 years. With regards to gender diversity in board of directors, 1 member was woman out of 7 members.

Applicable criteria

Consolidation
Definition of Default
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments
Cement

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

Incorporated in 1979, SCL belongs to B.G.Bangur - H. M. Bangur faction of the Bangur family of Kolkata. B. G. Bangur, the promoter & Chairman Emeritus of SCL, is an eminent industrialist. His son, H. M. Bangur, Chairman, is a qualified Chemical Engineer and was also a member of the Executive Committee of FICCI. Prashant Bangur (son of H. M. Bangur), Post Graduate in Management from Indian School Business (Hyderabad), is the Vice-Chairman of SCL.

The company is engaged in manufacturing cement with an installed capacity of 56.40 million tonne per annum (mtpa) in India (60.40 mtpa on a consolidated level) as on June 30, 2024, with its facilities spread across Rajasthan, Chhattisgarh, Uttarakhand, Bihar, Jharkhand, Haryana, Uttar Pradesh, Karnataka, Odisha, Maharashtra, West Bengal and the UAE. SCL is also engaged in generating power with an installed capacity of 1015 MW in India spread across coal-based, WHRS, solar and wind energy sources as on March 31, 2024.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	**17730**	**20430**	**5124**
PBILDT	2961	4522	927
PAT	1269	2396	278
Overall gearing (times)	0.20	0.13	-
Interest coverage (times)	11.26	17.50	16.50

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)*	-	-	NA	7-364 days	500.00	CARE A1+
Debentures-Non Convertible Debentures	INE070A07061	26-Sep-2023	7.8	26-Oct-2030	700.00	CARE AAA; Stable
Fund-based - LT-Cash Credit		-	-	-	1900.00	CARE AAA; Stable
Fund-based - LT-Term Loan		-	-	March 2025	150.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC		-	-	-	2000.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	Withdrawn

**Currently, there is nil outstanding commercial paper.*

CareEdge RATINGS

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	2000.00	CARE A1+	-	1)CARE A1+ (27-Dec-23) 2)CARE A1+ (11-Aug-23)	1)CARE A1+ (29-Sep-22) 2)CARE A1+ (22-Sep-22)	1)CARE A1+ (24-Sep-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (27-Dec-23) 2)CARE A1+ (11-Aug-23) 3)CARE A1+ (13-Jun-23)	1)CARE A1+ (12-Jan-23) 2)CARE A1+ (29-Sep-22) 3)CARE A1+ (22-Sep-22)	1)CARE A1+ (24-Sep-21)
3	Fund-based - LT-Cash Credit	LT	1900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Dec-23) 2)CARE AAA; Stable (11-Aug-23)	1)CARE AAA; Stable (29-Sep-22) 2)CARE AAA; Stable (22-Sep-22)	1)CARE AAA; Stable (24-Sep-21)
4	Issuer Rating-Issuer Ratings	LT	-	-	-	1)CARE AAA; Stable (27-Dec-23) 2)CARE AAA; Stable (11-Aug-23)	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (29-Sep-22) 3)CARE AAA (Is); Stable (22-Sep-22)	1)CARE AAA (Is); Stable (24-Sep-21)
5	Fund-based - LT-Term Loan	LT	150.00	CARE AAA; Stable	-	1)CARE AAA; Stable	1)CARE AAA; Stable	-

						(27-Dec-23) 2)CARE AAA; Stable (11-Aug-23)	(29-Sep-22)	
6	Debentures-Non Convertible Debentures	LT	700.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Dec-23) 2)CARE AAA; Stable (11-Aug-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Raipur Handling and Infrastructure Private Limited	Full	Wholly owned subsidiary
2.	Shree Global FZE	Full	Wholly owned subsidiary
3.	Shree Enterprises Management Ltd.	Full	Wholly owned subsidiary
4.	Shree International Holding Ltd.	Full	Wholly owned subsidiary
5.	Union Cement Company PJSC	Full	Subsidiary (98.35%)
6.	U C N Co Ltd L.L.C	Full	Subsidiary 98.35%*
7.	Shree Cement North Private Limited (w.e.f. 11.06.2022)	Full	Wholly owned subsidiary
8.	Shree Cement East Private Limited (w.e.f. 11.06.2022)	Full	Wholly owned subsidiary
9.	Shree Cement South Private Limited (w.e.f. 11.06.2022)	Full	Wholly owned subsidiary

*Effective group holding

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

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About us:

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