Barak Valley Cements Limited

August 23, 2021

Ratings

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

Details of 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 consistent improvement in capacity utilization, total operating income and profitability over the past 4 quarters of FY21 (refers to the period April 01 to March 31). Further, BVCL's reported improvement in performance during Q1FY22 (refers to the period April 01 to June 30) marked by better capacity utilization and realization as compared to Q1FY21. The ratings continue 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 relatively small scale of operations, working capital intensive operations and project execution risk associated with capacity expansion plan. The rating also takes note of exposure to volatility in input costs and cyclicality of cement industry.

Key Rating Sensitivities:

Positive:

- Achievement of envisaged growth in total operating income with PBILDT margin above 12% on a sustained basis.
- Efficient management of working capital cycle

Negative:

- Decline 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 time and/or cost overrun in the expansion of clinker production capacity.
- Delay in monetization of two subsidiaries and/or any further increase in exposure towards subsidiaries.

Detailed description of the key rating drivers

Key Rating Weaknesses

Relatively small scale of operations

BVCL has relatively small scale of operations with installed capacity of 0.33 million tonnes per annum (MTPA) of cement and 0.20 MTPA of clinker. The company geographical concentration in sales of cement in the North-Eastern region of India. During FY21, the capacity utilization stood at 64.58% for cement and 71.77% for clinker. The company caters to a highly concentrated region with large number of cement manufacturers operating near-by, some of which are having very large manufacturing capacity.

Working capital intensive operations

During FY21, the operations of the company continue to remain working capital intensive characterized by average utilization of ~98.35% over the last 12 months ended June 2021. The gross current asset days increased to 85 during FY21 from 72 days and working capital cycle stood at 22 days for FY21.

Project Execution Risk

The company is undergoing capacity expansion of clinker from present 600 tonnes per day (TPD) to 700 TPD which is expected to be completed by December 2021. The modernization of plant is also a part of this capex which is expected to increase capacity utilization for cement. The total estimated cost for the project expansion and modernization is Rs. 26.11 crore to be funded at a debt equity ratio (DER) of 1.58x. As on March 2021, the company has already incurred major part of

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

the capex project amounting to Rs. 23.25 crore. However, timely execution of the project without any cost over-run is key rating sensitivity.

Exposure to volatility in input costs and cement prices

The company meets its coal requirement through auctions or open market purchases from the domestic producers and thus remains exposed to risk arising on account of the volatility in the raw material prices. The company also remains exposed to risk of volatile movement in the price of diesel with respect to freight cost. However, during FY21, freight cost per tonne reduced significantly on account of increased focus on Assam region and initiation of ex-factory billing for customers. Further, with the large number of cement manufacturers and staggered rainfall patterns in the north-east, the price of cement remains susceptible to demand-supply dynamics and pricing discipline by the various producers.

Substantial exposure in subsidiaries

As on March 31, 2021, the company has an exposure of Rs. 38.17 crore as investments in its subsidiaries. As these investments have not yielded expected returns since FY10, the company has planned to divest its stake in two tea subsidiaries namely Singlacheera Tea and Chargolla Tea and transaction is expected to be completed by September 2021. As on March 31, 2021, adjusted networth stood at Rs.53.76 crore and adjusted overall gearing stood at 1.72. Any further increase in exposure towards subsidiaries shall remain negative from credit perspective.

Key Rating Strengths

Improvement in operational performance during FY21

The company reported consistent improvement in capacity utilization, total operating income and profitability over the past 4 quarters of FY21 (refers to the period April 01 to March 31). The utilization improved from 43% in Q1FY21 to 95% in Q4FY21. Although, the company's total operating income decreased to Rs.133.23 crore in FY21 on account of impact of Covid-19 pandemic, however, the PBILDT margins improved during FY21 owing to lower freight cost. Further, despite second wave of Covid-19 pandemic in Q1FY22, the company reported better capacity utilisation and realisation as compared to Q1FY21 due to recovery in demand from North Eastern region.

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 with captive limestone mines

The company's 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 and it is connected to 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 lime stone mines, in its wholly owned subsidiary viz. Meghalaya Minerals and Mines Limited (MMML) which are located within 75 km radius from the cement plant. MMML has been granted mining lease for period of 50 years valid till 2052. BVCL is procuring its entire requirement of limestone from its subsidiary.

Established customer base in North-Eastern region of India

The company sells cement through a distribution network comprising 150 dealers, in the North-Eastern states of Assam, Mizoram, Tripura, Manipur and Meghalaya. 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), Central Public Works Department of India (CPWD), Oil and Natural Gas Corporation Limited (ONGC), Border Security Force (BSF) etc.

Outlook on cement industry

The cement industry players seem to be cautiously optimistic on the impact of second wave of Covid-19 on the cement industry. The demand-supply scenario in Q1FY22 was affected owing to the recent spike in Covid-19 caseload and consequent imposition of restrictions from April 2021 onwards that slowed down the construction activities and in turn led to fall in demand for the commodity. In addition to this, growth in rural demand had aided the demand for cement in the last fiscal year. However, that may not be the case this year as rural areas too seem to be affected due to the second wave of Covid-19. The overall cement production is expected to grow in the range of 4% to 7% in FY22. While states have started lifting restrictions in a phased manner from June onwards, demand is expected to gain traction on a gradual basis and will be driven primarily by government spending on infrastructure coupled with pick-up in demand from both rural and urban markets as the situation evolves based on the containment of the virus and the progress in the vaccine inoculation drive. However, it is to be noted that the possibility of a third wave of Covid-19 in the near future might affect the industry dynamics again.

Liquidity: Stretched

The company has stretched liquidity characterized by high working capital utilization and low cash and bank balance. BVCL has total sanctioned fund-based limits of Rs.25 crore, which had an average utilization of ~98.35% over the last 12 months ended June 2021. The expected gross cash accruals for FY22 is Rs. 11.97 crore against which the company has repayment obligation of Rs. 4.75 crore in FY22. As on August 02, 2021, the company has free cash and cash equivalents amounting to Rs. 0.61 crore.

Analytical approach: Standalone

Applicable Criteria

Rating Methodology-Manufacturing Companies
Rating Methodology- Cement Industry
Criteria on assigning Rating Outlook and Credit Watch
Liquidity Analysis of Non-Financial Sector entities
Financial Ratios – Non-financial Sector
CARE's Policy on Definition of Default

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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	155.44	133.23
PBILDT	16.70	17.31
PAT	4.22	3.18
Overall gearing (times)	0.91	1.01
Interest coverage (times)	2.16	2.15

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA

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	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 BB-; Stable
Term Loan-Long Term	-	-	December 2027	16.00	CARE BB-; 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 BB-; Stable	-	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 B; Stable (31-Aug-20)	1)CARE C; Stable (28-Feb-20)	-

LT- Long Term

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

Long term loan	Detailed explanation
A. 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
B. 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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Term Loan-Long Term	Simple

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

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