Shree Cement Limited

September 24, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Issuer Rating	-	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed
Long-term Bank Facilities	1,100.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	800.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**1,900.00 (Rs. One thousand nine hundred crore only)**		
Commercial Paper (Carved out)*	400.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**400.00 (Rs. Four hundred crore only)**		

Details of instruments/facilities in Annexure-1
**Carved out of the sanctioned working capital limits of the company*

^The Issuer Rating would be subject to Overall gearing not exceeding 0.25 times as on March 31, 2022.
**The aggregate of CP and other working capital borrowings shall be within the sanctioned working capital limits.*

Detailed Rationale & Key Rating Drivers

The reaffirmation of issuer rating and ratings assigned to the bank facilities and instrument of Shree Cement Limited (SCL) continue to factor in the experienced promoters and management team, diversified geographical presence with strong market leadership position in northern India and growing operations in eastern and southern India, strong operating efficiency resulting in the company being one of the low-cost producers of cement and strong financial risk profile characterized by low leverage levels and superior liquidity. The rating strengths, however, are partially offset by exposure of the company's profitability to volatility in prices of inputs and the cyclical nature of the cement industry.

Rating Sensitivities

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

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

- Lower-than-envisaged profitability leading to decline in PBILDT margins below 20% or PBILDT interest coverage going below 8x.
- Any substantial debt ridden capex leading to deterioration in capital structure (overall gearing > 0.25x) and debt protection metrics (Total debt/PBILDT > 2x) on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Rich experience of the promoters and qualified managerial team

Mr B. G. Bangur, the promoter & Chairman of SCL, is an eminent industrialist. Mr H. M. Bangur (son of Mr B. G. Bangur), Managing Director, is a qualified Chemical Engineer and was also a member of the Executive Committee of FICCI. Under his leadership, the company has grown significantly and has become a strong cement player in India. Mr Prashant Bangur (son of Mr H.M. Bangur), graduate from the ISB, Hyderabad, is actively involved in all strategic, policy and operational matters of the company. The promoters are supported by a team of qualified personnel.

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

Established brand with strong presence in north India, growing presence in the eastern and southern India

Shree Cement Ltd (SCL), incorporated in 1979, is the third-largest cement group in India with domestic cement manufacturing capacity of 43.4 MTPA as on March 31, 2021. Furthermore, the company has international presence with cement plant in UAE (4 MTPA) through an acquisition in 2018, taking the company's consolidated cement capacity to 47.4 MTPA.

SCL is one of the strongest players in the northern regions with operating units at Rajasthan, Haryana, Uttar Pradesh and Uttarakhand. Notwithstanding the regional dominance, since 2014, the company has gradually forayed into eastern regions with operating units at Chhattisgarh, Jharkhand and Bihar as well as southern region with operating unit in Karnataka. Over last few years, SCL's aggregate cement sales to the eastern region (Bihar, Chhattisgarh, West-Bengal, Jharkhand and Odisha) have increased from 21% in FY17 to 25% in FY21. During FY21 (refers to the period April 01 to March 31), the company commissioned commercial operations of grinding unit of 3 MTPA at Athagarh, Cuttack, Odisha.

The company markets its products under the brand name of Roofon, Bangur Power, Shree Jung Rodhak, Bangur Cement and Rockstrong which possess a strong brand recall. The company's strategy to adopt split grinding units close to user markets provides efficiency in terms of logistics cost.

Strong operating efficiency

Being pioneer in many cost initiatives, SCL enjoys strong operating efficiency which makes it one of the low-cost cement-producing companies in India. The strong operating efficiency of the company arises on account of being - one of the lowest consumers of fuel per tonne, majority of consumption of power from captive power plants (80%-85%) including usage of waste heat recovery power (WHRS) and renewable plants resulting in low power cost, majority sale of blended cement thereby resulting in reduced consumption of energy and raw materials per tonne of cement, use of split-grinding units which ensures logistical advantages and adequate limestone reserves.

Strong distribution network

SCL has established an extensive network for marketing its products across the country. The company has a network of 25,860 dealers, 961 marketing staffs and 911 sales promoters for selling the cement to the end-customers in the territories operated. Furthermore, in view of the established brand along with strong distribution network, the company finds it easier to expand its reach and diversify its sales.

Improvement in financial performance in FY21 marked by improved profitability

During FY21, total income (consolidated) of SCL increased 6% y-o-y to Rs.13,886 crore driven by y-o-y increase in sales volumes. The PBILDT margin improved to 32.28% in FY21 from 30.82% in FY20. On standalone basis, SCL's total income increased 7% y-o-y to Rs.12,990 crore driven by 8% y-o-y increase in sales volumes. The PBILDT and PAT margins improved to 33.70% (PY: 32.55%) and 17.80% (PY: 12.91%), respectively, in FY21. The increase in profitability was mainly on account of growth in the volumes and higher share of premium products.

During FY21, the capacity utilisation improved marginally y-o-y to 65% (PY: 60%), due to addition of new capacity of 3 MTPA (at Odisha) during the year and also due to Covid-19 lockdown during Q1FY21. Despite Covid-19 impact, the company's sales volume (cement and clinker) witnessed an increase of 7.7% y-o-y in FY21. The sales realization improved 2% y-o-y during FY21, supported by price sustenance during the year. On the cost front, total cost per ton of cement production increase marginally by 2% y-o-y, with freight cost/t increasing 8% y-o-y, while power & fuel cost declining 5% y-o-y. For FY21, the company's PBILDT/t stood flat at Rs.1,451/t (PY: Rs.1,444/t) aided by increased realizations. The sales of premium brands have increased 0.11% in FY19 to 3.87% in FY20 and further to 6.10% in FY21, leading to better realization and profit margins.

For Q1FY22, the company's total income improved significantly y-o-y on account of low base (due to covid-induced lockdowns in Q1FY21) to Rs.3,776 crore (PY: Rs.2,607 crore). During Q1FY22, domestic cement sales volume increased 41% y-o-y due to lower base during Q1FY21 and increased demand offset by disruptions due to Covid-19 second wave. The domestic sale realization improved 7% y-o-y to Rs.5,041/t driven to price hikes during Q1FY22. Despite the realization improving by 7%, the PBILDT/t increased by 4% y-o-y to Rs.1,481/t offset by higher cost/ton which increased by 8%.

Strong financial risk profile

The company's financial position continues to remain strong and comfortable. The overall gearing was comfortable, at 0.14x as on March 31, 2021 (0.25x as on March 31, 2020). During FY21, the company met its entire capex funding through internal accruals and still maintained comfortable cash and liquid investments at Rs.8,581 crore as on March 31, 2021 (standalone basis). On consolidated basis, total cash & equivalents stood at Rs.9,209 crore. Against the cash balances, total debt as on March 31, 2021 stood at Rs.2,230 crore, indicating negative net debt.

Interest coverage ratio improved to 17.84x in FY21 from 13.89x in FY20 owing to decrease in interest cost during the year coupled with increase in PBILDT. As on March 31, 2021, Total Debt/PBILDT improved to 0.50x (PY: 0.80x) and Total debt/GCA also improved to 0.63x (PY: 1.01x).

Expansion underway for future growth
SCL has been continuously deploying its cash surplus to enhance its existing facilities, improve efficiency and diversify to new markets as well. SCL which has been one of the dominant cement players in northern India and has now expanded its operations to eastern and southern markets in last decade. By FY24, the company plans to add further 14 MTPA capacities across regions to strengthen its market position by the way of capex of around Rs.5,500-6,000 crore, expected to be funded through internal accruals and available cash balances. Currently, the company has ongoing capex works at Maharashtra, Chhattisgarh and West Bengal to expand capacities and has proposed plans to set-up additional capacities in north and south India.

Industry outlook
CARE Ratings expects the overall cement production to grow in the range of 4% to 7% in FY22. While states have started lifting restrictions in a phased manner from June 2021 onwards, the 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.

Key Rating Weaknesses

Exposure to volatility in input and finished goods prices
Limestone along with power and fuel constitutes key inputs in the process of cement manufacturing. The company sources its entire limestone requirement from its captive mines at Rajasthan, Chhattisgarh and Karnataka. For fuel, the company is largely dependent on imported pet coke and coal. The company has entered into various coal linkages for its CPP and cement manufacturing facilities, covering almost 8% of its coal requirements. Consequently, SCL is dependent on open market for the remaining of its coal requirements which is majorly sourced from the US owing to its high thermal output and easy transportation through Gujarat port. Thus, SCL remains exposed to risks arising on account of the volatility in the raw material prices to the extent of such imported coal and any adverse movement in the prices of pet coke or coal, without a corresponding movement in the price of the cement can affect its profitability.
During current year FY22, the industry has witnessed sustained increase in coal/pet coke and diesel costs, which is expected to moderate the operating profitability marginally during the year, though offset by better realizations.

Cyclicality of the cement industry
The 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 realisations.

Liquidity: Strong
The liquidity position of SCL remains strong with healthy cash accruals and maintenance of high cash and equivalents. The debt repayment obligation for SCL (standalone) FY22 stands at Rs.294 crore against expected gross cash accruals of over Rs.3,000 crore in FY22. The average fund-based and non-fund based limits utilization of SCL during 12 months ended July 2021 stood at 69%. It is to be noted both limits are inter-changeable and the company majorly utilizes the existing limits for fuel/raw materials imports through LC/BG. SCL (standalone)'s unencumbered cash and bank balance (including liquid investments) stood at Rs.6,947 crore as on June 30, 2021.

Analytical approach: Consolidated.
Consolidation of Standalone Shree Cement Ltd and its subsidiaries (as provided in Annexure). Consolidation owing to strong linkages between the parent and its subsidiaries, as they are in the same line of business and have common management.

Note: CARE Ratings had earlier taken a Standalone approach while factoring in the operational linkages and the financial support which Shree Cement Ltd has to extend to its subsidiaries. However, it is expected that the future expansion projects of the company to be undertaken under existing or new subsidiaries, hence the approach is now changed to Consolidated.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios - Non-Financial Sector

[Rating Methodology: Consolidation](#)
[Rating Methodology - Manufacturing companies](#)
[Rating Methodology - Cement Industry](#)

About the Company

Incorporated in 1979, Shree Cement Limited (SCL) belongs to Mr. B.G.Bangur - H. M. Bangur faction of the Bangur family of Kolkata. The company is engaged in manufacturing of cement with an installed capacity of 43.40 million tonne per annum (mtpa) (47.40 mtpa on a consolidated level) as on June 30, 2021, with its facilities spread across Rajasthan, Chhattisgarh, Uttarakhand, Bihar, Jharkhand, Haryana, Uttar Pradesh, Karnataka, Odisha and UAE. The company sells cement under the brand name of Roofon, Shree Cement, Bangur power, Bangur Cement and Rockstrong. SCL is also engaged in generation of power with an installed capacity of 763 MW spread across coal-based, WHRS, solar and wind energy sources as on June 30, 2021. Currently, the company has ongoing capex to further add 14 MTPA capacities across regions to strengthen its market position and these capacities are expected to be operational by FY24.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	13,134	13,886
PBILDT	4,048	4,482
PAT	1,544	2,290
Overall gearing (times)	0.25	0.14
Interest coverage (times)	13.89	17.84

A: Audited

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	800.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	1100.00	CARE AAA; Stable
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AAA (Is); Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	400.00	CARE A1+

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.	Non-fund-based - ST-BG/LC	ST	800.00	CARE A1+	-	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (12-Dec-18)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (27-Dec-18) 2)CARE A1+ (12-Dec-18)
3.	Fund-based - LT-Cash Credit	LT	1100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Sep-20)	1)CARE AAA; Stable (07-Jan-20)	1)CARE AAA; Stable (12-Dec-18)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Dec-18)
5.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (15-Dec-20)	-	-

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.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: List of subsidiaries of SCL getting consolidated

Sr. No.	Name of the Entity	Subsidiary / Joint Venture / Associate	% Shareholding by SCL as on March 31, 2021
1.	Raipur Handling and Infrastructure Private Limited	Subsidiary	100%
2.	Shree Global FZE	Subsidiary	100%
3.	Shree Enterprises Management Ltd.	Step-down Subsidiary	100%
4.	Shree International Holding Ltd.	Step-down Subsidiary	100%
5.	Union Cement Company PJSC	Step-down Subsidiary	98.18%
6.	Union Cement Norcem Company Limited L.L.C.	Step-down Subsidiary	60%

Note on complexity levels of the rated instrument: *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@careratings.com for any clarifications.*

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About CARE Ratings:
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