Shree Cement Limited

September 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	150.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Long Term Bank Facilities	1,100.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1,200.00 (Enhanced from 800.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**2,450.00 (₹ Two Thousand Four Hundred Fifty Crore Only)**		
Issuer rating Issuer Rating	0.00	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed
Total Instrument	**0.00 (₹ Only)**		
Commercial Paper (Carved out) *	400.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**400.00 (₹ Four Hundred Crore Only)**		

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

Detailed rationale and key rating drivers

The reaffirmation of the issuer rating and the ratings assigned to the bank facilities and instrument of Shree Cement Limited (SCL) continues to factor in the diversified geographical presence with strong market leadership position in northern India and growing operations in the eastern and southern India, strong operating efficiency resulting in the company being one of the low-cost producers of cement. The ratings further factor in the strong financial risk profile characterised by low leverage levels and superior liquidity and also the experienced promoters and management team. The rating strengths are, however, partially offset by exposure of the company's profitability to volatility in prices of input costs and realisations 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 the PBILDT margins below 20% on a sustained basis or PBILDT interest coverage going below 8x on a sustained basis.
- Any substantial debt-ridden capex or acquisition leading to significant deterioration in the capital structure and credit metrics.
- Decline in the operating performance, resulting in net debt/PBILDT above 0.5x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Established brand with strong presence in north India, growing presence in the eastern and southern India and strong distribution network: SCL, incorporated in 1979, is the third-largest cement group in India with domestic cement manufacturing capacity of 46.4 MTPA as on June 30, 2022. 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 50.4 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. During FY21 (refers to the period April 1 to March 31), the company commissioned commercial operations of grinding unit of 3 MTPA at Athagarh, Cuttack, Odisha, and during FY22, SCL commissioned greenfield project of 3 MTPA at the grinding unit in Patas, Pune (February 01, 2022).

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

Increased scale and improved geographical access to central and eastern India and entry in the southern market will further enhance SCL's market position.

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 27% in Q1FY23. The company markets its products under the brand names 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. SCL has established an extensive network for marketing its products across the country. The company has a network of 20,627 dealers, 985 marketing staffs and 1,294 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.

Strong operating efficiency leading to industry leading margins albeit moderation expected in FY23 due to cost pressures: Being a 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. The operating profit per tonne of cement remains one of the highest in the industry.

While the sales volume of SCL (cement and clinker) witnessed an increase of 3% y-o-y in FY22, its sales realisation improved by 11% in FY22 as against FY21 mainly driven by the rising input costs partially passed on to the customers. On the cost front, the total cost per ton of cement production increased by 19% y-o-y, with power and fuel cost/t increasing 50% y-o-y and raw material cost/t increasing by 16% y-o-y. For FY22, the company's PBILDT/t stood moderated by 9% to ₹1,315/t from ₹1,451/t. The PBILDT margin moderated to 26.82% in FY22 as against 32.28% in FY21. During FY22, the capacity utilisation stood at 63% (PY: 65%).

Furthermore, in Q1FY23, the sales volume increased by 10% as against Q1FY22 and realisations/t increased by further 11%. However, the total cost/t increased by 27% in Q1FY23 with power and fuel cost at ₹1,923/t in Q1FY23 vis-à-vis ₹953/t in Q1FY22. This led to decline in PBILDT/t by 26% in Q1FY23, which stood at ₹1,091/t as against ₹1,481/t in Q1FY22. Q2FY23 is also expected to be moderate, as the industry players continued to carry high-cost inventory. Due to seasonally weak quarter, no price hikes were taken. Furthermore, currently, the prices of pet coke have moderated from the earlier highs and players have also taken price hikes, the impact of the same will be visible in the profitability of the company from Q3FY23.

SCL's operating units are eligible for various incentives, which results in cost advantages: SCL is eligible for various incentives and subsidies under different Central and State Government schemes. The company earned incentives of ₹173.05 crore in FY22 (₹255.91 crore in FY21 and ₹237.59 crore in FY20). The incentives have the potential to recover part or entire investment by the company in the respective state, which can provide cost advantages in the future course of operations. The company identifies its subsidies and incentives on receipt basis and hence there are no receivables outstanding against the same.

Strong financial risk profile: The company's financial position continues to remain strong and comfortable. The overall gearing (including acceptances) was comfortable at 0.17x as on March 31, 2022 (0.17x as on March 31, 2021). The company met its capex funding of around ₹1,100 crore in FY22 through internal accruals and still maintained comfortable cash and liquid investments (invested in mutual funds, bonds and fixed deposits, etc.) at ₹9,318.25 crore as on March 31, 2022. Against the cash balances, total debt (including acceptances) as on March 31, 2022, stood at ₹2,946.92 crore, indicating negative net debt. Interest coverage ratio improved to 19.10x in FY22 from 17.84x in FY21. Major portion of the proposed capex of around ₹6,500 crore over the next two to three years will be funded through cash accruals.

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 the last decade. By FY24, the company plans to add further 10 MTPA capacities across regions to strengthen its market position by the way of capex of around ₹6,500 crore, expected to be funded through internal accruals and available cash balances. Currently, the company has ongoing capex works at Rajasthan, Andhra Pradesh, and West Bengal to expand capacities and has proposed plans to set-up additional capacities in north and south India. All the capex are planned to be funded from internal accruals of the company. The ability of the company to maintain its cost competitiveness, profitability and capacity utilisation in the scenario of ongoing capacity expansion is a key rating sensitivity.

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. Furthermore, the company has a captive power capacity of 798 MW (includes 503 MW of thermal capacity), which caters to almost 80%-85% of its power requirements at competitive cost. 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%-10% 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 the 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 has moderated the operating profitability across the sector.

Cyclicality of 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 realisations and profitability.

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 in FY23 stands at ₹378.92 crore against expected gross cash accruals (GCA) of over ₹2,800 crore in FY23. The average fund-based and non-fund-based limits utilisation of SCL for 12 months ended August 2022 stood at 74%. It is noteworthy that both limits are inter-changeable. The company majorly utilises the existing limits for fuel/raw materials imports through LC/BG. SCL (standalone)'s liquid investment/unencumbered cash and bank balance stood at ₹7,060 crore as on June 30, 2022. Cash accruals are projected in the range of ₹2,800 crore - ₹3,000 crore per annum over the medium term, which shall be sufficient to cover the working capital and capex requirements.

ESG profile:

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 the ley reasons. Due to the 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 Limited (CARE ratings) believes SCL's commitment to ESG will support its strong credit profile.

Key ESG highlights of SCL:

- SCL is one of the lowest cost cement producers in the Indian cement industry. For SCL, cost optimisation is a continuous process rather than a target. They work on achieving optimisation through digitalisation, continuous process improvement, increasing efficiency, automation, data analytics, supply chain optimisation, etc., and this process is followed and repeated on a continuous basis.
- In fiscal 2022, the share of renewable energy in the overall energy consumption of the company was 48%, which is one of the best in the industry.
- Planned a capex towards setting up of solar power plants, which will further enhance the proportion of clean energy usage in total power consumption-
    - b) Increased usage of alternate fuel from 6.03% last year to 9.84% in FY21-22 to conserve natural resources.
    - c) Increased use of alternative raw materials from 26.01% to 27.23% in FY22.
    - d) Avoided approximately 6.04 million tonnes of CO_2 by producing blended cement in FY22.
- The governance structure is characterised by majority of the board members being independent directors, split in chairman and executive positions, dedicated investor grievance redressal mechanism and required disclosures.

Analytical approach: Consolidated

Consolidation owing to strong linkages between the parent and its subsidiaries, as they are in the same line of business and have common management. The companies considered in consolidated financials are as follows:

Subsidiaries	% stake held by SCL
Raipur Handling and Infrastructure Private Limited	100%

Shree Global FZE	100%
Shree Enterprises Management Ltd.	100%
Shree International Holding Ltd.	100%
Union Cement Company PJSC	98.25%
Union Cement Norcem Company Limited L.L.C.	60%
Shree Cement North Private Limited (w.e.f. 11.06.2022)	100%
Shree Cement East Private Limited (w.e.f. 11.06.2022)	100%
Shree Cement South Private Limited (w.e.f. 11.06.2022)	100%

Applicable criteria

Policy on default recognition

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Cement

Manufacturing Companies

About the company

Incorporated in 1979, Shree Cement Limited (SCL) belongs to B.G.Bangur - H. M. Bangur faction of the Bangur family of Kolkata. B. G. Bangur, the promoter & Chairman of SCL, is an eminent industrialist. H. M. Bangur (son of B. G. Bangur), Managing Director, is a qualified Chemical Engineer and was also a member of the Executive Committee of FICCI.
The company is engaged in the manufacturing of cement with an installed capacity of 46.40 million tonne per annum (mtpa) (50.40 mtpa on a consolidated level) as on June 30, 2022, 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 the generation of power with an installed capacity of 798 MW spread across coal-based, WHRS, solar and wind energy sources as on June 30, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	13,886.05	15,396.43	4,394.75
PBILDT	4,482.00	4,128.69	780.72
PAT	2,289.59	2,336.61	278.86
Overall gearing (times)	0.17	0.17	NA
Interest coverage (times)	17.84	19.10	14.08

A: Audited; UA: Unaudited; NA: Not 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 instruments/facilities: 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	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
Non-fund-based - ST-BG/LC		-	-	-	1200.00	CARE A1+
Fund-based - LT-Cash credit		-	-	-	1100.00	CARE AAA; Stable
Fund-based - LT-Term Loan		-	-	31/03/2025	150.00	CARE AAA; Stable
Issuer rating-Issuer ratings		-	-	-	0.00	CARE AAA (Is); Stable
Commercial paper-Commercial paper (Carved out)	INE070A14612	13.07.2022	5.28%	23.09.2022	100.00	CARE A1+
Commercial paper-Commercial paper (Carved out)	INE070A14638	15.07.2022	5.28%	26.09.2022	100.00	CARE A1+
Commercial paper-Commercial paper (Carved out)	INE070A14646	17.08.2022	5.85%	15.11.2022	100.00	CARE A1+
Commercial paper-Commercial paper (Carved out)	Proposed				100.00	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 (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	1200.00	CARE A1+	-	1)CARE A1+ (24-Sep-21)	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (07-Jan-20)
2	Commercial paper-Commercial paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (24-Sep-21)	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (07-Jan-20)
3	Fund-based - LT-Cash credit	LT	1100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (24-Sep-21)	1)CARE AAA; Stable (28-Sep-20)	1)CARE AAA; Stable (07-Jan-20)
4	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (24-Sep-21)	1)CARE AAA (Is); Stable (15-Dec-20)	-
5	Fund-based - LT-Term Loan	LT	150.00	CARE AAA; Stable				

*Long term/Short term.

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 Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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