CARE Ratings
Professional Risk Opinion

Barak Valley Cements Limited

February 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facility-Term Loan	**16.00**	**CARE C; Stable [Single C; Outlook: Stable]**	**Assigned**
Total Facility	**16.00 (Rupees Sixteen crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers:

The rating assigned to the bank facilities of Barak Valley Cements Limited (BVCL) takes into account relatively small scale of operations, moderate financial risk profile and solvency position, working capital intensive operations, stretched liquidity position, project execution risk associated with capacity expansion plan, exposure to volatility in input costs and cyclicality of the cement industry.

However, the rating derives strength from the long track record of operations of the company in cement industry, cement plant operations with captive limestone mines and locational advantage with strong customer base in North-East India.

Key Rating Sensitivities

Positive Factors:

- Improvement in financial profile
- Strengthening of liquidity position
- Efficient management of working capital cycle

Negative Factors:

- Deterioration in liquidity position leading to any instances of delay or overdrawal in debt servicing

Detailed description of the key rating drivers:

Key Rating Weaknesses

Relatively small scale of operations

The company has relatively small scale of operations with installed capacity of 1000 tonnes per day (TPD) of cement and 600 TPD of clinker and the company sells cement only in the North-Eastern region of India. Capacity utilization during FY19 stood at 72% for cement and 90% for clinker. Capacity utilization has marginally improved in H1FY20 to 73.37% for cement. However, capacity utilization for clinker stood at 86.41% in H1FY20.

Moderate financial risk profile and solvency position

The company has reported total operating income (TOI) of Rs.140.28 crore and profits after tax (PAT) of Rs.3.03 crore for FY19 as compared to TOI of Rs.150.23 crore and PAT of Rs.2.83 crore for FY18. The decline in TOI was mainly on account of heavy rains in the North Eastern region and partial plant shutdown for 35-40 days during FY19 for replacement and repair of machinery parts, which impacted the overall cement production. However, PAT in FY19 was higher on account of increase in other income, along with lower depreciation and interest cost. Overall gearing and interest coverage ratio stood at 0.76x as on March 31, 2019 (0.80x as on March 31, 2018) and 1.79x for FY19 (2.00x for FY18). During 9MFY20, the company has reported TOI of Rs.114.86 crore and PAT of Rs.2.39 crore as compared to TOI of Rs.101.56 crore and PAT of Rs.1.78 crore during 9MFY19.

Working capital intensive operations and stretched liquidity position

The company's operations are working capital intensive. Gross current asset days stood at 77 days, while creditor days stood at 88 days in FY19 resulting into negative working capital cycle. However, high credit period is on account of stretched liquidity position of the company. Average utilization of fund-based limits remained high at 100% for the 12 months period ended January 2020. The company had free cash and bank balance of Rs.0.48 crore as on December 31, 2019.

Exposure to volatility in input costs and cement prices

The company has captive lime stone mines and procures its entire limestone requirement from its wholly-owned subsidiary i.e. Meghalaya Minerals and Mines Limited. Further, it 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. Furthermore, with the company's presence restricted to North-East India, it remains susceptible to demand-supply dynamics and volatility in the prices of cement

Project Execution Risk

Company is planning to increase capacity of clinker from present 600 TPD to 700 TPD in FY20 and FY21. The modernization of plant is 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 by D:E of 1.58x. However, timely execution of the project without any cost over-run is key risk.

Key rating strengths

Long track record of operations in cement industry

Established in 1999, the company has nearly 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.

Cement plant operations 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, in Karimganj District of 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), in district Jaintia of Meghalaya. The limestone mines are located within 75 km radius from the cement plant and have deposit life of over 100 years. 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 Rifals, Executive Engineer Rural Development (EERD), CPWD, ONGC, BSF, etc.

Industry outlook

Given the inherently cyclical nature of the cement industry, the company remains exposed to risks associated with the same. However, higher outlay and focus on infrastructure, housing and rural development are likely to boost the cement demand in the long-term, which in turn will benefit the companies in the sector.

Liquidity analysis: Stretched

The company has free cash and bank balance of Rs.0.48 crore as on December 31, 2019. Average utilization of fund-based limits remained high at 100% for the 12 months period ended January 2020.

The company has scheduled debt repayments of around Rs. 1.23 crore in FY20 and FY21 as against projected Gross Cash Accruals in the range of Rs.6 crore to Rs.7 crore in FY20 and FY21.

Analytical Approach: Standalone

Applicable Criteria

CARE's Rating Process
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology - Cement Industry

About the Company

Barak Valley Cements Limited (BVCL), incorporated in April 1999, 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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	150.23	140.28
PBILDT	18.61	14.31
PAT	2.83	3.03
Overall gearing (times)	0.80	0.76
Interest coverage (times)	2.00	1.79

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

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
Term Loan-Long Term	-	-	March 2027	16.00	CARE C; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE C; Stable	1)CARE C; Stable (20-Aug-19) 2)CARE B; Stable (18-Jul-19)	-	-	-
2.	Term Loan-Long Term	LT	16.00	CARE C; Stable	-	-	-	-

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

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact:
Name: Ms Jasmeen Kaur
Tel: 011- 45333245
Email: Jasmeen.kaur@careratings.com

Relationship Contact
Name - Swati Agrawal
Contact no. : +91-11-45333237
Email ID – swati.agrawal@careratings.com

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