Barak Valley Cements Limited
August 31, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities- Cash Credit	25.00	**CARE B; Stable (Single B; Outlook: Stable)**	**Revised from CARE C; Stable (Single C; Outlook: Stable)**
Long-term Bank Facilities- Term Loan	16.00	**CARE B; Stable (Single B; Outlook: Stable)**	**Revised from CARE C; Stable (Single C; Outlook: Stable)**
Total Facilities	**41.00 (Forty-One crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of the ratings assigned to the bank facilities of Barak Valley Cements Limited (BVCL) takes into account better liquidity management by the company leading to satisfactory track record of debt servicing in some of the facilities (not rated by CARE) and no overdrawals in CC account for the past 6-9 months. The ratings also derives strength from experience of the promoters in cement industry, company's long track record of operations and moderate improvement in operational & financial performance during the FY20.

The rating is, however, constrained by relatively small scale of operations, 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 and the uncertainty regarding the timing of the on-going Covid-19 pandemic clearing out.

Key Rating Sensitivities:

Positive:

- Sustained growth in income from operations by around 10-15% p.a.
- Improvement in PBILDT margins over current levels
- Efficient management of working capital cycle

Negative:

- Decline in PBILDT margins below current levels.
- Substantial decline in sales volume resulting in lower capacity utilisation of plants and decline in the total operating income.
- Delay in expansion of clinker production capacity.

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 1000 tonnes per day (TPD) of cement and 600 TPD of clinker and it sells cement in the North Eastern region of India. Capacity utilization during FY20 stood at 75% for cement and 88% for clinker. The company caters to a highly concentrated region with number of cement manufacturers operating near-by, some of which are having very large manufacturing capacity.

Working capital intensive operations and stretched liquidity position

The company's operations are working capital intensive. Gross current asset days stood at 72 days, while creditor days stood at 71 days in FY20 and working capital cycle stood at 1 day. However, high creditor period is on account of stretched liquidity position of the company. Average utilization of fund-based limits remained high at 98.93% for the 12 months period ended June 2020. The company had free cash and bank balance of Rs.1.37 crore as on June 30, 2020.

Project Execution Risk

Company is working on increasing capacity of clinker from present 600 TPD to 700 TPD in 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 at a debt equity ratio (DER) of 1.58x. However, timely execution of the project without any cost over-run is key risk sensitivity.

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

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. 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.

Key Rating Strengths

Experienced promoters and long track record of operations in the cement industry

Established 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 it target markets are located in the North-Eastern states of India. The promoters of the company are renowned businessmen of north-east having experience in various segments like plywood, timber, cement, tea, concrete sleepers etc.

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, 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 limestone 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 Rifles, Executive Engineer Rural Development (EERD), CPWD, ONGC, BSF, etc.

Moderate financial risk profile

The company's total operating income increased from Rs.141.37 crore in FY19 to Rs.155.44 crore in FY20. The improvement in TOI was on account of improvement in average sales realization price which increased from Rs.5917 per tonne in FY19 to Rs. 6269 per tonne in FY20. Further, the sales volumes registered an increase of about 5% from 2.36 lakh tonne in FY19 to 2.48 lakh tonne during the FY20. PBILDT improved at Rs.16.70 crore in FY20 as compared to Rs.15.40 crore in FY19. Further, PAT also increased from Rs.3.03 crore in FY19 to Rs.4.22 crore in FY20. Overall gearing and interest coverage ratio stood at 0.91x as on March 31, 2020 (0.76x as on March 31, 2019) and 2.16x for FY19 (1.92x for FY19) respectively.

Outlook on cement industry

Given the inherent 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. Currently, the industry is severally affected due to Covid-19 situation. The demand in Q1FY21 though has picked on the backdrop of strong rural demand. Given the weakness in end user demand due to the lack of activity in the housing and infrastructure sector, the demand in cement industry is expected to remain subdued till September 2020 at least, till the end of the monsoon season. Partial recovery is expected October-November 2020 onwards post Diwali with return of migrant labourers and normalization of operations is expected January 2021 onwards.

Liquidity analysis: Stretched

The company has free cash and bank balance of Rs.1.37 crore as on June 30, 2020. Average utilization of fund-based limits remained high at 98.93% for the 12 months period ended June 2020. The company has scheduled debt repayments of around Rs. 1.23 crore in FY21 as against Gross Cash Accruals of Rs.9.14 crore in FY20.

The company has availed moratorium for its debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Analytical Approach: Standalone

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

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.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	141.37	155.44
PBILDT	15.40	16.70
PAT	3.03	4.22
Overall gearing (times)	0.76	0.91
Interest coverage (times)	1.92	2.16

A: Audited

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
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
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE B; Stable
Term Loan-Long Term	-	-	March 2027	16.00	CARE B; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE B; Stable	-	1)CARE C; Stable (20-Aug-19) 2)CARE B; Stable (18-Jul-19)	-	-
2.	Term Loan-Long Term	LT	16.00	CARE B; Stable	-	1)CARE C; Stable (28-Feb-20)	-	-

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

Analyst Contact
Name – Mr. Harish Chellani
Contact no. - +91-11-4533 3222
Email ID- harish.chellani@careratings.com

Relationship Contact
Name: Ms. Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**