

Sagar Cements Limited

February 07, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	227.55	CARE BBB; ISSUER NOT COOPERATING*(Triple B; ISSUERNOT COOPERATING*)	Issuer not cooperating; Based on best available information
Short term Bank Facilities	25.00	CARE A3+; ISSUER NOT COOPERATING*(A Three Plus; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Total	252.55 (Rs. Two hundred and fifty two crore and fifty five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Sagar Cements Limited (SCL) to monitor the ratings vide e-mail communications dated from June 06, 2017 to January 17, 2018 and numerous phone calls. Despite our repeated requests; the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on SCL's bank facilities will now be denoted as **CARE BBB/CARE A3+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating takes into account satisfactory operational performance of SCL (Consolidated) during FY17 (refers to the period April 01 to March 31) with stable capacity utilization level, growth in sales volume due to improved demand prospects for cement resulting in increased revenue during FY17 with comfortable capital structure and commissioning of Waste Heat Recovery (WHR) unit and solar power plant. The ratings also factor in net losses and decline in profitability margins during FY17 albeit improvement in same during 9MFY18 (Unaudited). The ratings continue to factor in the experienced promoters and management team, long track record of operations, SCL's long-term mining agreement for lime stone, established sales force and distribution channel and positive industry prospects. The ratings are, however, tempered by moderate debt coverage indicators, ongoing debt-funded capex. On the consolidated level, the ability of the company to sustain volume growth and cement realizations and capital structure and debt coverage indicators given the large debt funded capacity expansion being undertaken and its associated fixed costs.

Detailed description of the key rating drivers

At the time of last rating in last Press Release dated October 12, 2016, the following were the rating strengths and weakness (updated for the information available from stock exchange):

Key Rating Strengths

Satisfactory operational performance with growth in sales volume due to improved demand prospects for cement resulting in increased revenue during FY17: On standalone basis the capacity utilization of SCL stood at 54% for FY17 (55% in FY16). Operating income on consolidated basis registered growth of 7.78% and stood at Rs. 816.64 crore (Rs.757.64 crore during FY16) during FY17 backed by increase in quantum of sales due to improved demand prospects for cement.

Comfortable capital structure: SCL's capital structure remained comfortable represented by overall gearing (consol.) level at 0.70x as on March 31, 2017.

Commissioning of WHR unit and solar power plant: The company commissioned 6 MW WHR plant unit in Mattampally and solar power plant of 1 MW capacity at its plant at Mattampally became operational on October 26, 2017. Further, SCL successfully acquired Bayyavaram plant with capacity of 0.18 MT in Vizag during FY17.

Experienced promoters and management team with long track record of operations: SCL is promoted by Mr. S Veera Reddy Managing Director, who is a first generation entrepreneur with over four decades of experience in the Cement Industry. Sagar Cements Limited (SCL) has about three decades of track record and over the years.

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

*Issuer did not cooperate; Based on best available information

Long-term mining agreement for lime stone: Post receipt of mining lease in FY16, through SCRL's uninterrupted access to quality limestone reserves SCL has advantage of adequate availability of raw materials.

Established sales force and distribution channel: SCL sells its product through dealers/stockiest, consignment/C&F agents, direct parties, government and institutional customers.

Industry prospects: Given the inherent cyclical nature of the cement industry, the company remains exposed to risks associated with the same. Demand and hence production was impacted post demonetization wherein at a y-o-y basis, there was de-growth till March 2017; however, there has been improvement from March 2017 onwards in realizations. Also, GST implementation impacted the volumes during the year. Also, there has been increase in input cost. 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.

Key Rating Weaknesses

Net losses incurred during FY17 with decline in margins albeit profits during 9MFY18 (UA): The company incurred net loss of Rs.3.92 crore in FY17 (profit of Rs.44.80 crore during FY16). PBILDT and PAT margins declined to 13.94% (16.81% in FY16) and -0.48% (5.84% in FY16) respectively during FY17 on account of decline in net sales realization and high capital charge. However, during 9MFY18, TOI has increased by 17% to Rs.788.41 crore (Rs.7672.95 crore during 9MFY17) with PAT of Rs.21.52 crore (net loss of Rs.0.75 crore in 9MFY17).

Ongoing debt-funded capex: SCL is implementing a coal based captive power unit of 18 MW and expansion of the grinding unit in Bayyavaram to 0.3 MT with capital cost of Rs.166.41 crore.

Moderate debt coverage indicators: Total debt to GCA was high at 10.32x during FY17 vis-à-vis 6.45x during FY16 on account of increased debt levels for ongoing capex coupled with lower accruals. Further, PBILDT interest coverage declined to 1.83x in FY17 vis-à-vis 3.04x in FY16 on account on decline in PBILDT level high interest expense. During 9MFY18 PBILDT interest coverage ratio improved to 2.69x vis-à-vis 1.86x in FY16.

Analytical approach: Consolidated

The ratings assigned to the bank facilities of Sagar Cements Limited (SCL) is based on the consolidated view of SCL and its wholly-owned subsidiary Sagar Cements (R) Limited (SCRL).

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Cement Industry](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Sagar Cements Limited (SCL) was incorporated in January 15, 1981 and commenced operations from January 1985 with an installed capacity of 66,000 Tons Per Annum (TPA) of Cement and 66,000 TPA of Clinker capacity with its manufacturing facilities located in Nalgonda, Andhra Pradesh. SCL manufactures various varieties of cement like Ordinary Portland Cement (OPC) of 53 grade, 43 grade, Portland Pozzalona Cement (PPC) and Sulphate Resistant Cement (SRC). Over the years, SCL has increased the capacity and currently has an installed capacity of 4.3 million (mn) MTPA (including 1 mn MTPA post acquisition of Sagar Cements (R) Limited (erstwhile BMM Cements Limited) for cement and 3.62 mn MTPA for clinker. SCL belongs to Hyderabad based Sagar Group which is into diversified business segments such as, cement manufacturing, hydel power generation through Sagar Power Limited (9.95MW), manufacture of fabric and woven sack for cement industry through Panchavathi Polyfibers and also into consulting and information technology services through group companies RV Consulting and Sagarsoft (India) Limited.

Recent Development:

The company commissioned 6 MW WHR plant unit in Mattampally and solar power plant of 1 MW capacity at its plant at Mattampally became operational on October 26, 2017. Further, SCL successfully acquired Bayyavaram plant with capacity of 0.18 MT in Vizag during FY17.

Brief Financials (Rs. crore)	FY16	FY17
Consolidated	Audited	
Total operating income	757.64	816.64
PBILDT	127.37	113.85
PAT	44.80	-3.92
Overall gearing (times)	0.90	0.70
Interest coverage (times)	3.04	1.83

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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.

Analyst Contact:

Name: Ms. Radhika Ramabhadran

Tel: +91-40-6900-0516

Mobile: 8008883012

Email: radhika.ramabhadran@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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan	-	-	March, 2026	155.55	CARE BBB; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	72.00	CARE BBB; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A3+; ISSUER NOT COOPERATING*
Fund-based - ST-Standby Line of Credit	-	-	-	10.00	CARE A3+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	155.55	CARE BBB; ISSUER NOT COOPERATING*	-	1)CARE BBB (12-Oct-16)	1)CARE BBB- (27-Oct-15)	1)CARE BBB- (10-Dec-14) 2)CARE BB+ (15-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	72.00	CARE BBB; ISSUER NOT COOPERATING*	-	1)CARE BBB (12-Oct-16)	1)CARE BBB- (27-Oct-15)	1)CARE BBB- (10-Dec-14) 2)CARE BB+ (15-Apr-14)
3.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A3+; ISSUER NOT COOPERATING*	-	1)CARE A3+ (12-Oct-16)	1)CARE A3 (27-Oct-15)	1)CARE A3 (10-Dec-14) 2)CARE A4+ (15-Apr-14)
4.	Fund-based - ST-Standby Line of Credit	ST	10.00	CARE A3+; ISSUER NOT COOPERATING*	-	1)CARE A3+ (12-Oct-16)	1)CARE A3 (27-Oct-15)	-

*Issuer did not cooperate; Based on best available information

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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