

Sagar Cements Limited

December 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	227.55	CARE BBB-; ISSUER NOT COOPERATING (Triple B Minus; ISSUER NOT COOPERATING)	Issuer not cooperating; Revised from CARE BBB; Stable (Triple B; Outlook: Stable) on the basis of best available information
Short term Bank Facilities	25.00	CARE A3; ISSUER NOT COOPERATING (A Three; ISSUER NOT COOPERATING)	Issuer not cooperating; Revised from CARE A3+ (A Three Plus) on the basis of best available information
Total	252.55 (Rs. Two hundred and fifty two crore and fifty five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated February 07, 2018, placed the rating(s) of Sagar Cements Limited. (SCL) under the 'issuer non-cooperating' category as SCL had failed to provide information for monitoring of the rating. SCL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated from August 3, 2018 to December 5, 2018. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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 ratings have been revised on account of losses incurred during H1FY19 (Consol.) at the back of decline in operating margins. Further, the ratings also factor in proposed acquisition of Satguru Cement Private Limited and Jajpur Cements Private Limited and proposed issue of warrants for funding the acquisition.

The ratings take into account satisfactory operational performance with growth in sales volume due to improved demand prospects for cement resulting in increased revenue during FY18, comfortable capital structure and experienced promoters and management team with long track record of operations, long-term mining agreement for lime stone and established sales force and distribution channel. The ratings also factor in net losses incurred during H1FY19 with decline in margins, ongoing debt-funded capex and moderate debt coverage indicators.

Detailed description of the key rating drivers

At the time of last rating on February 07, 2018 the following were the rating strengths and weaknesses (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 and profits during FY18:

On standalone basis, the production and sales increased by 28% and 30% respectively in terms of quantities produced and sold. For FY18, SCL produced 1.94 MT as against 1.52 MT in the previous year. Operating income on consolidated basis registered growth of 27.11% and stood at Rs. 1038.09 crore during FY18 (Rs.816.64 crore during FY17) backed by increase in quantum of sales due to improved demand prospects for cement. SCL on a consol. basis reported PAT of Rs. 26.26 crore for FY18 as against net loss of Rs. Rs.3.92 crore in FY17.

Comfortable capital structure:

SCL's capital structure remained comfortable represented by overall gearing (consol.) level at 0.61x as on March 31, 2018. However, debt level of the company on consol. basis further increased during H1FY19.

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.

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

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.

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.

Key Rating Weaknesses**Net losses incurred during H1FY19 with decline in margins:**

The company incurred net loss of Rs.2.19 crore in H1FY19 (profit of Rs.18.19 crore during H1FY18). PBILDT and PAT margins declined to 11.00% (17% in H1FY18) and -0.41% (3.70% in H1FY18) respectively during H1FY19 on account of decline in realization along with higher input costs and high capital charge.

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. The commissioning is envisaged by March 2019.

Moderate debt coverage indicators:

Total debt to GCA remained high at 6.48x during FY18 vis-à-vis 9.79x during FY17, improvement was on account of increased accruals during FY18.

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.

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.

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.

Consolidated:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	816.64	1038.09
PBILDT	113.85	158.58
PAT	-3.92	26.26
Overall gearing (times)	0.70	0.61
Interest coverage (times)	1.83	2.67

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

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

****For detailed Rationale Report and subscription information, please contact us at www.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* Issuer not cooperating; Revised from CARE BBB; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	72.00	CARE BBB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - ST- Standby Line of Credit	-	-	-	10.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+; ISSUER NOT COOPERATING* on the basis of best available information

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	155.55	CARE BBB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BBB; ISSUER NOT COOPERATING* (07-Feb-18)	1)CARE BBB (12-Oct-16)	1)CARE BBB- (27-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	72.00	CARE BBB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE BBB; ISSUER NOT COOPERATING* (07-Feb-18)	1)CARE BBB (12-Oct-16)	1)CARE BBB- (27-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE A3+; ISSUER NOT COOPERATING* (07-Feb-18)	1)CARE A3+ (12-Oct-16)	1)CARE A3 (27-Oct-15)
4.	Fund-based - ST-Standby Line of Credit	ST	10.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE A3+; ISSUER NOT COOPERATING* (07-Feb-18)	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

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

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

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

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

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

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

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

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

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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