Shree Cement Limited

January 07, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	1100	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	800	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**1,900 (Rs. One thousand nine hundred crore only)**		
Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Commercial Paper	600 (Rs. Six hundred crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Shree Cement Limited (SCL) continue to derive strength from rich experience of the promoters and qualified management team, sizeable portfolio of surplus funds amounting to around Rs.6,000 crores as on December 13, 2019 despite continuous capacity expansion, strong financial risk profile as on last 3 account closing dates including QIP issue of Rs.2400 crores in November 2019, improvement in the power segment in FY19, strong operating efficiency resulting in the company being the low cost producer of cement and geographical diversification of existing operations after creating leadership in the Northern region. However, the ratings are tempered by the cyclical nature of the cement industry and exposure of the company's profitability to volatility in prices of inputs.

Rating Sensitivities

Positive Factors

NA

Negative Factors

- Lower than envisaged profitability leading to decline in PBILDT margins below 20% or PBILDT interest coverage going below 10x
- Any substantial debt ridden capex leading to deterioration in capital structure (overall gearing > 0.50x) and debt protection metrics (Total debt/GCA > 2.5x) on a sustained basis.

Detailed description of key rating drivers

Key rating strengths

Rich experience of the promoters and qualified managerial team

Mr. B. G. Bangur, the promoter & Chairman of SCL, is an eminent industrialist. Mr. H. M. Bangur (son of Mr. B. G. Bangur), Managing Director, is a qualified Chemical Engineer. He was also a member of the Executive Committee of FICCI. Under his leadership, the company has grown significantly and has become a strong cement player in India. Mr. Prashant Bangur (son of Shri H.M. Bangur), graduate from the ISB, Hyderabad, is actively involved in all strategic, policy and operational matters of the company. The promoters are supported by a team of qualified personnel.

Sizeable portfolio of surplus funds amounting to around Rs.6,000 crores as on December 13, 2019 despite continuous capacity expansion

Over the years, SCL has been a cash rich company having significant amount of funds invested in liquid mutual funds and bank fixed deposits which provides high comfort. The company has been increasing its capacity multifold (from 9 mn tonne on March 31, 2009 to 44.40 mn (consol) tonne on Sep 30, 2019) and has still maintained adequate cash and liquid investments.

Despite, substantial increase in term loan in FY18 for the Kodala integrated unit (term loan of Rs.1613), the solvency ratio of the company remains comfortable marked by high cash and liquid investments of Rs.3303 crore as on 30th September 2019 (Rs.6,000 crores as on 13th December 2019) against total debt of Rs.3405 crore. In Q2FY19, the company increased its exposure in wholly owned subsidiary to buy UCC at around Rs.2091.56 crore which was funded through liquidation of

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

investments. Further, the company had investments in preference share of Infrastructure Leasing and Financial Services Ltd (CARE D, ICRA D) and IL&FS Financial Services Ltd (IL&FS Group) aggregating to Rs.178.13 crore as on March 31, 2018 which the company has written off post the IL&FS Group's credit rating downgrade to junk status in the Q2FY19. The high level of cash and liquid investments have been due to the company posting decent GCA which stood at Rs.2255 crores in FY19 (Rs.2280 in FY18) and Rs.1439 crore in H1FY20 (Rs.855 crore in H1FY19)

Strong operating efficiency

Being pioneer in many cost initiatives, SCL enjoys strong operating efficiency which makes it one of the low cost cement producing company in India. The strong operating efficiency of the company arises on account of being 1) one of the lowest consumer of fuel per tonne; usage of waste heat recovery power plants resulting in low power and fuel cost per tonne; 2) 100% availability of the captive power plant; 3) majority sale of blended cement thereby resulting in reduced consumption of energy and raw materials per tonne of cement; 4) use of split-grinding units which ensures logistical advantages and 5) Adequate limestone reserves

Established brand with strong presence in North India, growth in the Eastern region and expansion in Southern India and UAE

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, 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. The company markets its products under the brand name 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. As on Sep 30, 2019, SCL's aggregate cement capacity is around 40.40 MTPA (consol. 44.40 mtpa) in a combination of integrated and grinding units. Over last couple of years, SCL's aggregate cement sales to the Eastern region (Bihar, Chhattisgarh, West-Bengal, Jharkhand and Odisha) have increased from 21% in FY17 to 26% in FY19. SCL has successfully commissioned its grinding capacity of 2.5MT in Jharkhand on 28th June 2019, and has further expansion plans of 8 MTPA grinding units in Maharashtra (3 MTPA) West Bengal (2 MTPA) and Odisha (3 MTPA). It has already commissioned its clinker and cements capacity in Karnataka and has also acquired UCC, UAE with a capacity of 4.0 MTPA. Aggregate sales in Rajasthan, Haryana, Punjab, Delhi and Uttar Pradesh, which are the niche geographical areas accounted for 64% of sales during FY19 (67% during FY18).

Strong distribution network

SCL has established an extensive network for marketing its products. The company has a network of 16679 dealers and 861 depots for selling the cement to the end customers in the territories operated. The extent of reliance on any particular dealer is minimal as the top 10 dealers contribute only around 2% to the sales of the company in FY19. 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.

Expansion underway for future growth

SCL has been continuously deploying its cash surplus to enhance its existing facilities/improve efficiency and lay its presence in new markets as well. SCL which has been one of the dominant cement players in Northern India has now expanded its operations to reach Eastern and Southern markets. Currently, the company is targeting to increase its cement capacity to 48.40 MTPA by setting up new units in Odisha, West Bengal and Maharashtra. Other capex includes WHRS plant in Kodla and railway sidings in Jharkhand and Pune. Total estimated project cost for planned capex is Rs. 1,855 crores out of which Rs. 993 crores has already been spent till November 30, 2019.

Comfortable operation of SCL`s cement plant

SCL has been able to operate at satisfactory levels. The company operated at a capacity utilization of ~66% in FY19. On an annualized basis, volume sales of cement and clinker increased by around 14.78% in FY19 on account of enhanced cement capacity and increase in volumes of sales in UP, Rajasthan and Eastern markets of Bihar, Odisha and Jharkhand.

Although, average net realization per tonne of cement improved marginally from Rs. 4172 per tonne in FY18 to Rs.4223 per tonne in FY19, the company was only partially able to pass on higher expenses leading to fall in PBILDT/MT to Rs.955 in FY19 from Rs.1091 in FY18. Overall PBILDT for cement business in FY19 stayed stable at Rs.2471 crores against Rs.2458 crores on the back of increase in volume. Fuel costs per tonne increased by around 13.55% in FY19 triggered by the pet coke ban and rise in coal prices from Rs.6672/MT in FY18 to Rs.9409/MT in FY19.

PBILDT/MT improved substantially in H1FY20 to Rs.1449 as against Rs.802 in H1FY19 on the back of rising average sales realisation from Rs.4178/MT in H1FY19 to Rs.4682/MT. The raw material, power and fuel and freight costs remained stable during the period.

Improvement in power segment in FY19

The company has diversified into power sector from being a captive power producer to merchant power producer. The company has enhanced its power capacity over the last ten years from 65 MW to 742 MW as on March 31, 2019. The total power generated by the company increased by 27% from 2562 million units in FY18 to 3254 million units in FY19. Post meeting the captive power requirement, the company sells the balance power in the spot market or through short term bilateral contracts and the same contributed about 7.02% to the total turnover of the company in FY19 (4.38% in FY18). Power sales improved 85% from Rs. 433 crore in FY18 to Rs.802 crore in FY19 on the back of increased power generation and 33.52% increase in realisation from Rs.3.58 per unit to Rs.4.78 per unit. PBILDT per unit improved from Rs.0.13 in FY18 to 1.09 in FY19.

Strong financial risk profile as on last 3 account closing dates including QIP issue of Rs.2400 crores in November 2019

The company's financial position continues to remain strong and highly comfortable, despite increase in term debt to finance the expansion at integrated Kodla unit. The overall gearing was highly comfortable, due to a high net worth, at 0.34x as on Sep 30, 2019 (0.44x as on Sep 30, 2018). Even after write off of investments in ILFS Group, capex through internal accruals and acquisition of UCC, the cash, bank and liquid investments were comfortable at Rs.3303 crore as on Sep 30, 2019 (Rs.6000 cr as on Dec 13, 2019 post raising Rs.2400 crore through QIP issue) invested in debt funded mutual funds, NABARD bonds etc and fixed deposits. SCL has two business segments viz.

✓ **Cement**

On an annualized basis, SCL's cement division sales witnessed a growth of around 16.17% during FY19 mainly on the back of increase in sales volume from 22.53 MnT in FY18 to 25.86 MnT in FY19. Increase in sales volume was majorly due to improved sales in the Eastern region. During FY19, PBILDT margin from the said division stood at 22.63% in FY19 as against PBILDT of 26.15% in FY18. This was due to higher power and fuel cost per ton of cement produced by around 14% owing to pet coke ban and weak domestic currency which led to increase in importation cost. In H1FY20, PBILDT per ton of cement improved substantially to Rs.1449 from Rs.802 in H1FY19 mainly on account of increase in average realisation by ~Rs.500 per ton. The cement division reported a PBILDT of Rs.1704.77 crore in H1FY20 vis-à-vis PBILDT of Rs.1013.24 crore in H1FY19.

✓ **Power**

In the power division, sales improved by 85% on the back of increase in units sold from 1196 MU in FY18 to 1678 MU in FY19. Also, average sales price per unit increased from Rs.3.62 per unit to Rs. 4.78 per unit leading to sharp improvement in its reported segment PBILDT from Rs.14.43 crore in FY18 to Rs.181.56 crore in FY19. The performance of power division was moderate in H1FY20 with 754 MU sold as against 850 MU in H1FY19. PBILDT also moderated in H1FY20 to Rs.41.1 crore against Rs.81.7 crore in H1FY19 owing to lower power demand in Q2FY20.

✓ **Overall**

On an annualized basis, SCL's revenue increased by 19.21% during FY19 over FY18 due to higher sales in the cement division. On account of increasing costs in the cement division in FY19, which is the major contributor to PBILDT the overall margin deteriorated in FY19 to 24.26% from 27.37% in FY18. Interest coverage moderated to 11.73x in FY19 from 20.55x in FY18 owing to increase in interest cost during the year on account of term loan for Kodla unit. The total debt/GCA as on 31 March, 19, was comfortable at 1.51x vis-à-vis 1.71x as on March 30, 2018.

During H1FY20, the company's total operating income increased by 3.20% over the corresponding period, backed by increase in sales realizations per ton of cement but restricted by fall in sales volume of cement and power. The PBILDT, increased to Rs.1746 crore from Rs.1095 crore on the back of improved EBIDTA per ton realisation of cement.

PAT margins were lower at 7.97% in FY19 as against 13.63% in FY18 weighed down by capital charges. Further, the company reported exceptional item of write down off investments of RS.178.13 crore (IL&FS Group Rs.171 crore) during Q2FY19.

Key Rating Weakness

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. For fuel, the company is largely dependent on imported petcoke and coal. The Company has entered into various coal linkages for its CPP and cement manufacturing facilities, covering almost 13% of its coal requirements. Consequently, SCL is dependent on open market coal price trends for the remaining 87% of its coal requirements which is majorly sourced from US owing to its high thermal output and easy transportation through Gujarat port. Thus, SCL is exposed to 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 can affect its profitability.

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.

Liquidity - Strong
The liquidity position remained strong marked by significant amount of funds invested in liquid mutual funds and bank fixed deposits of ~Rs.6000 crore as on 13th December 2019 against total debt of Rs.3405 crore.
The Company has earned GCA of Rs.2255 crore in FY19 and Rs.1439 crore in H1FY20 against a debt repayment obligation of Rs. 9 crore in FY19 and Rs. 69 crore in FY20 (Full amount was paid in April 2019). The fund utilisation of the company had been moderate at an average of 44.72% for the last 12 months ending November 2019. Also the company has raised Rs.2400 crores in November 2019 through QIP for pursuing organic growth opportunities. Till the time the plans are approved by the Board, the funds would be invested in mutual funds and other debt instruments.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Factoring Linkages in Ratings
CARE's methodology for cement companies
Financial Ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies

About the Company
Incorporated in 1979, Shree Cement Limited (SCL) belongs to Mr. B.G.Bangur - H. M. Bangur faction of Bangur family of Kolkata. The company is engaged in manufacturing of cement with an installed capacity of 40.40 million tonne per annum (mtpa) (44.40 mtpa on a consolidated level) as on Sep 30, 2019 with its facilities spread across Rajasthan, Chattisgarh, Uttarakhand, Bihar, Jharkhand, Haryana, Uttar Pradesh and Karnataka. The company sells cement under the brand name of Roofon, Bangur Power, Shree Jung Rodhak, Bangur Cement and Rockstrong.
SCL is also engaged in generation of power with an installed capacity of 742 MW. The company over the years has increased its power generation capacity from 96 MW in FY08 to its present capacity. Having commenced the power generation activity solely for the purpose of captive uses, the company has transformed itself to selling power on a merchant basis.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	10,157	11,940
PBILDT	2,780	2,897
PAT	1,384	951
Overall gearing (times)	0.44	0.35
Interest coverage (times)	20.55	11.73

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	800.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	1100.00	CARE AAA; Stable
Commercial Paper	-	NA	NA	600.00	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 (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.	Term Loan-Long Term	-	-	-	-	-	1)Withdrawn (26-Sep-17)	1)CARE AAA (23-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	800.00	CARE A1+	-	1)CARE A1+ (12-Dec-18)	1)CARE A1+ (22-Jan-18) 2)CARE A1+ (26-Sep-17)	1)CARE A1+ (23-Sep-16)
3.	Commercial Paper	ST	600.00	CARE A1+	-	1)CARE A1+ (27-Dec-18) 2)CARE A1+ (12-Dec-18)	1)CARE A1+ (22-Jan-18) 2)CARE A1+ (26-Sep-17)	1)CARE A1+ (16-Nov-16) 2)CARE A1+ (23-Sep-16)
4.	Fund-based - LT-Cash Credit	LT	1100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (12-Dec-18)	1)CARE AAA; Stable (22-Jan-18) 2)CARE AAA; Stable (26-Sep-17)	1)CARE AAA (23-Sep-16)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (12-Dec-18)	1)CARE AAA; Stable (22-Jan-18) 2)CARE AAA; Stable (12-Dec-17)	-

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

Analyst Contact
Name: Mr. Punit Singhania
Contact No. - 033-4018 1620
Email id – punit.singhania@careratings.com

Business Development Contact
Name: Mr. Lalit Sikaria
Contact No. - 033-4018 1607
Email id – lalit.sikaria@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**