Shree Cement Limited

September 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1100.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	800.00	**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	400.00 (Rs. Four 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, continuous capacity additions at high frequency but of smaller magnitude which has enabled it to expand systematically, achieve faster project turnaround, drive growth with minimum pressure on balance sheet and maintain market share, geographical diversification of existing operations in Eastern & Southern region after creating leadership in the Northern region, strong operating efficiency resulting in the company being one of the low cost producer of cement, additional revenue stream through sale of surplus power, strong financial risk profile as on last three account closing dates as evident from healthy profitability, comfortable capital structure and strong debt protection metrics, sizeable portfolio of surplus funds, increasing entry barriers limit fragmentation and consolidation of capacities to support prices. However, the above strengths are partially offset by exposure of the company's profitability to volatility in prices of inputs and the cyclical nature of the cement industry.
While the production and demand was impacted during the lockdown, the same have improved with gradual unlocking. Further, the company initiated various cost reduction initiatives which is likely to moderate the impact of COVID. Also the conservative capital structure and strong financial flexibility lends comfort to SCL's credit profile.

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 unencumbered surplus funds amounting to around Rs.6,000 crores as on June 30, 2020 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

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

tonne on March 31, 2009 to 44.40 mn (consol) tonne on June 30, 2020) 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 unencumbered cash and liquid investments of Rs.6089 crore as on June 30, 2020 against total debt of Rs.3366 crore (including security deposits from customers). The high level of cash and liquid investments have been due to the company posting decent GCA which stood at Rs.3158 crores in FY20 (Rs.2255 in FY19) and Rs.629 crore in Q1FY21 (Rs.742 crore in Q1FY20).

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; 2) 85% consumption of power from captive power plants including usage of waste heat recovery power plants resulting in low power cost;; 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 and Southern India and in 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 June 30, 2020, 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 25% in FY20. 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 66% of sales during FY20 (69% during FY19).

Strong distribution network

SCL has established an extensive network for marketing its products. The company has a network of 22596 dealers, 980 marketing staffs and 794 sales promoters 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 5 dealers contribute only around 3% to the sales of the company in FY20. 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, 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 railway sidings in Jharkhand, Pune and Kodla and upcoming integrated units in Northern and Southern India and clinker unit in Raipur. Total estimated project cost for planned capex is Rs. 8,590 crores (work commenced on projects amounting to Rs.1833 crores and rest all in pipeline) to be completed by FY25 out of which Rs.1036 crores has already been spent till June 30, 2020.

Improvement in financial performance in FY20 marked by improved profitability albeit dip in capacity utilization

The financial performance of the company witnessed improvement by way of y-o-y increase in PBILDT and PAT margins from 24.26% and 7.97% respectively in FY19 to 32.35% and 12.94% respectively in FY20. Absolute PBILDT and PAT numbers improved significantly by 35% and 65% to Rs.3924 crore and Rs.1570 crore respectively, despite moderate increase in overall revenue by 1.6% to Rs.12130 crore. The increase in profitability was mainly on account of significant improvement in average sales realisation of cement from Rs.4223/ton in FY19 to Rs.4568/ton in FY20. Introduction and increase in sale of premium brands like Roofon and Bangur Power from 0.11% of total sales in FY19 to 3.87% in FY20, contributed to better sales realisation. The profitability has also been positively impacted by reduction in raw material costs by 12% (Company was able to reduce raw material cost by optimising its procurement of fly ash, slag, etc. and usage of alternate materials like synthetic gypsum), freight cost by 6% and power and fuel cost by 7% over FY19. Power and fuel cost were lower due to soft petcoke and fuel prices during the year.

The capacity utilisation (CU) moderated in FY20 at 60% in comparison to 66% in FY19. CU was impacted by addition of new capacity of 2.5 MT (at Jharkhand) and also due to Covid-19 lockdown during the latter part of March 2020.
PBILDT and PAT margins improved further in Q1FY21 to 35.47% and 15.94% (31.40% and 11.96% in Q1FY20) despite fall in capacity utilisation to 48% on account of closure of production and sales for over a month, due to lockdown to combat the spread of Covid-19 pandemic from March 24, 2020. As a result of such lockdown, the overall operating income of the company in Q1FY21 decreased by ~23% in comparison to Q1FY20. However, improvement in margins was mainly on account of increase in sales realisation to Rs.4718/ton in Q1FY21.

Strong financial risk profile as on last 3 account closing dates
The company's financial position continues to remain strong and comfortable. The overall gearing was comfortable, at 0.31x as on Mar 31, 2020 (0.35x as on Mar 31, 2019). The company met its capex funding of ~Rs.1400 crore in FY20 through internal accruals and still maintained comfortable unencumbered cash and liquid investments (invested in debt funded mutual funds, bonds and fixed deposits) at Rs.6089 crore as on June 30, 2020, as against total debt of Rs.3366 crore (including security deposits from customers). The company had raised Rs.2400 crores in November 2019 through qualified institutional buyers for pursuing organic growth opportunities. As per the management, till the time the plans are approved by the Board, the funds would be invested in mutual funds and other debt instruments.
Interest coverage ratio improved to 13.69x in FY20 from 11.73x in FY19 owing to decrease in interest cost during the year coupled with increase in PBILDT. Total debt/GCA as on March 31, 2020, also improved to 1.25x as compared to 1.51x as on March 31, 2019 owing to improved GCA during the year.
Overall gearing and interest coverage ratio stood at 0.25x and 11.62x as on June 30, 2020 on the back of reduction in term loan and working capital borrowings during the quarter.

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 8% of its coal requirements. Consequently, SCL is dependent on open market coal price trends for the remaining 92% 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, without a corresponding movement in the price of the cement 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.

Impact of Covid-19 Pandemic on SCL
During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments from March 22, 2020. Consequently the manufacturing and sales operations SCL were impacted due to such lockdown. The operations have been commenced in a phased manner post second week of April 2020 after conforming to the guidelines of the regulatory authorities. Both sales and profitability for Q1FY21 were adversely impacted due to the lockdown. As per the management, no material impact is expected due to Covid-19 on the carrying value of assets and liabilities as on June 30, 2020. The company has not availed any moratorium from its lenders.

Liquidity - Strong
The liquidity position of SCL remains strong with FY20 & Q1FY21 debt repayment obligations already been paid. The company has not taken moratorium for its bank facilities. The debt repayment obligation for FY21 stands at Rs.710.30 crore out of which Rs.255 crore has already been repaid in Q1FY21. Rest of the repayment obligation would be met through projected cash accruals in FY21. GCA earned in FY20 and Q1FY21 stands at Rs.3158 crore and Rs.629 crores respectively. The average fund based/non-fund based limits utilization of SCL during 12 months ended July 2020 have been moderate at 42.61% with unutilized line of credit standing at ~Rs.1100 crore as on July 31, 2020. Liquid investment/unencumbered cash & bank balance stood at Rs.6,089 crore as on June 30, 2020 (Rs.5823 crore as on March 31, 2020) against total outstanding debt of Rs.3366 crore (including security deposits from customers) as on June 30, 2020.

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]
[Rating Methodology – Cement Industry]
[Financial Ratios – Non-Financial Sector]
[Rating Methodology – Manufacturing Companies]
[Liquidity Analysis of Non-financial sector entities]

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 Jun 30, 2020 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)	FY19 (A)	FY20 (A)
Total operating income	11,940	12,130
PBILDT	2,897	3,924
PAT	951	1,570
Overall gearing (times)	0.35	0.31
Interest coverage (times)	11.73	13.69

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 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
Non-fund-based - ST-BG/LC	-	-	-	800.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	1100.00	CARE AAA; Stable
Commercial Paper-Commercial Paper (Standalone)	December 10, 2018	NA	NA	400.00	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 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.	Term Loan-Long Term	-	-	-	-	-	-	1)Withdrawn (26-Sep-17)
2.	Non-fund-based - ST-BG/LC	ST	800.00	CARE A1+	-	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (12-Dec-18)	1)CARE A1+ (22-Jan-18) 2)CARE A1+ (26-Sep-17)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	400.00	CARE A1+	-	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (27-Dec-18) 2)CARE A1+ (12-Dec-18)	1)CARE A1+ (22-Jan-18) 2)CARE A1+ (26-Sep-17)
4.	Fund-based - LT-Cash Credit	LT	1100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Jan-20)	1)CARE AAA; Stable (12-Dec-18)	1)CARE AAA; Stable (22-Jan-18) 2)CARE AAA; Stable (26-Sep-17)
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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	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.*

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