Shree Cement Limited (Revised)

December 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[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	**1,900.00 (Rs. One Thousand Nine Hundred crore only)**		
Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Commercial Paper	300.00 **(Rs. Three Hundred crore only)**	**CARE A1+ (A One Plus)**	Reaffirmed
Proposed Non-Convertible Debenture	500.00 **(Rs. Five Hundred crore only)**	-	Withdrawn

Details of instruments/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 despite continuous capacity expansion, strong financial risk profile and 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. The rating also factors in the recent acquisition of the Union Cement Company (UCC), UAE.

Going forward, the ability of the company to maintain its cost competitiveness and profitability along with ensuring optimum capacity utilization, maintain liquidity/low net debt position, overall performance of UCC and any other major debt funded capex or acquisition form the key rating sensitivities.

CARE has withdrawn the rating assigned to the proposed non-convertible debentures with immediate effect, at the company's request. The aforementioned non-convertible debenture rated by us, as confirmed by the company, was not placed and there is no amount outstanding under the instrument as on date.

Detailed description of the 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), MD, 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.

Strong operating efficiency

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) 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) sale of blended cement thereby resulting in reduced consumption of energy and raw materials per tonne of cement and 4) use of split-grinding units which ensures logistical advantages.

Strong financial risk profile

SCL has two business segments viz.

✓ **Cement**

On an annualized basis, SCL's cement division sales witnessed a growth of around 17% during FY18 (refers to the period April 1 to March 31) mainly at the back of improvement in net realizations and volumes in FY18 vis-à-vis in FY17. During FY18, PBILDT margin from the said division stood at 26.15% as against 29.36% in FY17. In H1FY19, the cement division

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

remained under pressure due to increased cost of fuel and transportation, however, there was an increase in realizations in Q2FY19 vis-à-vis Q1FY19. CARE notes that in H1FY19, the performance of the cement division was also impacted due to write off investments in preference share of Infrastructure Leasing and Financial Services Ltd (CARE D) and IL&FS Financial Services Ltd (IL&FS Group) and marked to market forex loss on account of unhedged portion of the ECB exposure availed for Kodla unit. As on December 3, 2018, SCL has hedged around 80% of the said exposure.

✓ **Power**

In the power division, during FY18 unit sales declined to 1197 MU as against 1658 MU in FY17. Although, average sales per unit marginally increased in FY18, in light of increasing costs, the company's power business showed a sharp decline in its reported segment PBILDT from Rs.156.50 crore to Rs.14.43 crore in FY18. This was due to decreased contribution from lower sales volume and increasing cost of generation on the back of rising fuel prices. However, with increase in both realizations and units sold, the power division, PBILDT improved significantly in H1FY19.

✓ **Overall**

On an annualized basis, SCL's revenue increased by 13.68% during FY18 over FY17 due to higher sales in the cement division. On account of increasing costs in the cement division in H2FY18, which is the major contributor to PBILDT, the margin deteriorated in FY18, to 27.37% from 31.70% in FY17. Interest coverage and other liquidity indicators continued to be comfortable. The total debt/GCA as on March 31, 2018was comfortable at 1.12x vis-à-vis 0.42x as on March 30, 2017 despite substantial term loan was disbursed during year end,. The overall gearing remained comfortable at 0.42x as on March 31, 2018.

During H1FY19, the company's total operating income increased by 19.85% over the corresponding period, backed by increase in sales volumes and realizations, post commencement of enhanced capacities during the period. The PBILDT, however, declined marginally, over the corresponding period, as margins remained constrained on account of increasing costs.

Liquidity- Comfortable liquidity position with high level of cash surplus

The company's liquidity position continued to remain comfortable, despite continuous capex and acquisition marked by comfortable capital structure and solvency ratios. The company had cash, bank and liquid investments of Rs.2815 crore as on Sep 30, 2018 vis-à-vis Rs.5755 crore (including disbursed loan of Rs.1613 crore for Kodla Unit) as on March 31, 2018, due to the aforementioned factors. The company earned a GCA of Rs. 842.78 crore in H1FY19 against a debt repayment obligation of Rs.8.99 crore during the year.

Strong presence in North India with established brand, however, has diversified with growth in Eastern and Southern India and acquisition in UAE (United Arab Emirates)

.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 as well with operating units at Chhattisgarh and Bihar. Over last couple of years, SCL's aggregate cement sales to the Eastern region (Bihar, Chhattisgarh, West-Bengal, Jharkhand and Odisha) has increased from 16% in FY16 to 24% in FY18. It has also commissioned the grinding division of its integrated unit in Kodla, Karnataka. On July 11, 2018, SCL has completed acquisition of UCC, UAE by purchasing 97.61% equity stake in the company through a step down subsidiary by using liquid investments and internal accruals. UCC has a grinding capacity of 4.0 mtpa. Going forward, the overall performance of UCC is a key rating sensitivity.

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. For limestone, the company is entirely dependent on its captive mines at Rajasthan, Chhattisgarh and Karnataka. For fuel, the company is largely dependent on imported pet-coke and coal.

The company's coal linkages are not adequate, hence the company is still dependent on the imported coke/coal; thus, exposing SCL to risk arising on account of the volatility in the raw material prices. While the price of cement is influenced by demand-supply equilibrium in the region, the realization of the power is dependent on the exchange prices which are volatile. Hence any adverse movement in the prices of pet coke or coal affects its profitability.

Cyclical nature of 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 realizations.

Outlook of cement industry

Going forward, while the cement industry would continue to witness cyclical trends due to inherent nature of the industry, long-term outlook for the cement sector is stable. The demand outlook for the sector is expected to be favourable given the continued government focus on affordable housing, infrastructure projects especially the irrigation projects gaining momentum and also the likely impact of pre-election demand and dwindling impact of demonetisation, GST and RERA. Further, gradual recovery in demand from rural segment and improvement in sand availability in states where there was a ban is also envisaged as positive. Also upward price correction is likely in the near term to compensate for the increasing costs.

Despite the pricing pressure and increasing costs, with favourable demand outlook, the credit profiles of the cement players are expected to be stable.

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
CARE's methodology for cement companies
Financial Ratios – Non-Financial Sector
CARE's Policy on Withdrawal of Rating

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 37.90 million tonne per annum (mtpa) (41.90 mtpa on a consolidated level) as on Sep 30, 2018 with its facilities spread across Rajasthan, Chattisgarh, Uttarakhand, Bihar, Haryana, Uttar Pradesh and Karnataka. The company sells cement under the brand name of Shree Ultra, Bangur and Rockstrong.
SCL is also engaged in generation of power with an installed capacity of 639.7 MW (*499 MW coal based thermal power plants and balance waste heat recovery systems*).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8934.27	10156.75
PBILDT	2831.93	2779.57
PAT	1339.11	1384.18
Overall gearing (times)	0.21	0.42
Interest coverage (times)	21.88	20.55

A: Audited

Status of non-cooperation with other 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.*

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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
Debentures-Non Convertible Debentures	-	-	-	0.00	Withdrawn
Short Term Instruments-CP	-	-	-	300.00	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 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.	Term Loan-Long Term	-	-	-	-	1)Withdrawn (26-Sep-17)	1)CARE AAA (23-Sep-16)	1)CARE AAA (01-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	800.00	CARE A1+	-	1)CARE A1+ (22-Jan-18) 2)CARE A1+ (26-Sep-17)	1)CARE A1+ (23-Sep-16)	1)CARE A1+ (01-Oct-15)
3.	Short Term Instruments-CP	ST	300.00	CARE A1+	-	1)CARE A1+ (22-Jan-18) 2)CARE A1+ (26-Sep-17)	1)CARE A1+ (16-Nov-16) 2)CARE A1+ (23-Sep-16)	1)CARE A1+ (01-Oct-15) 2)CARE A1+ (04-Aug-15)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (01-Oct-15)
5.	Fund-based - LT-Cash Credit	LT	1100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (22-Jan-18) 2)CARE AAA; Stable (26-Sep-17)	1)CARE AAA (23-Sep-16)	1)CARE AAA (01-Oct-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AAA; Stable (22-Jan-18) 2)CARE AAA; Stable (12-Dec-17)	-	-

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