December 10, 2021 (Revised)

Star Cement Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	100.00	131.00	[ICRA]AA-(Stable); reaffirmed
Non-fund Based Facilities	68.00	143.00	[ICRA]A1+; reaffirmed
Total	**168.00**	**274.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in the Star Group's strong financial risk profile as reflected in its comfortable capital structure, strong debt protection metrics and strong liquidity position, which are expected to continue in the near term. The operating income (OI) declined by 7% YoY in FY2021 as sales volumes contracted in Q1 FY2021 due to the pandemic-induced lockdown, while the OPBIDTA/MT moderated by 7% owing to elevated raw material costs and lower absorption of fixed overheads. However, the Group's debt coverage metrics remain strong supported by limited total debt of Rs. 18.2 crore and a continued net debt negative status as on September 30, 2021.

The cost optimisation initiatives taken by the company to lower freight costs (by purchase of own fleet) and power & fuels costs (by investing in WHRS capacities) are likely to support the OPBITDA/MT going forward. In H1 FY2022, SCL witnessed a sales volume growth of 28% YoY to 1.38 MTPA, supported by a low base effect of the previous year, and sales volumes are likely to be higher by 10-11% YoY in FY2022.

The long-term demand prospects are positive given the government's thrust on the affordable housing and infrastructure segments. The capital structure and debt protection metrics are likely to remain strong over the near to medium term despite capex plans during FY2022-FY2024 towards setting up of WHRS capacity and clinker expansion, as it is expected to be met out of internal accruals.

The ratings continue to factor in the Group's established market position in the cement manufacturing business in North East India with a market share of ~23% in the region and its integrated nature of operations. Further, a wide distribution network of more than 2,000 dealers and 12,000 retailers has resulted in a strong brand presence across the North Eastern region, enabling the Group to enjoy premium pricing compared to the peers.

The ratings are, however, constrained by the modest scale of operations compared to other national level cement players, given the high geographical concentration risks as its presence is concentrated in the North East (~80% volume sales in FY2021). ICRA, however, expects the demand-supply scenario in the region to remain favourable over the medium term, given the thrust on infrastructure development in the area and limited capacity addition in the region. Moreover, the Group has expanded its footprint in eastern India and has set up a 2-MTPA grinding unit in Siliguri, West Bengal, which commenced operations in Q4 FY2021. While the higher penetration in the eastern markets is likely to aid in geographical diversification, the ability of the Group to increase its presence outside the North East while sustaining profitability at healthy levels remains to be seen. ICRA also notes the cyclicality inherent in the cement industry which leads to variability in profitability and cash flows.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to benefit from its strong market position in the North Eastern region, generate healthy cash accruals from the business as well as maintain a strong liquidity position.

Key rating drivers and their description

Credit strengths

Strong financial risk profile - The operating income (OI) declined by 7% YoY in FY2021 on account of a contraction in volumes in Q1 FY2021 due to the lockdown, while the OPBIDTA/MT moderated by 7% in FY2021 owing to elevated raw material costs and lower absorption of fixed overheads. Yet, the Group's debt coverage metrics are strong (interest cover of 47.6 times in FY2021), supported by limited total debt of Rs. 18.2 crore and a continued net debt negative status as on September 30, 2021. The OPBIDTA/MT in H1 FY2022 further declined by 11% YoY and is likely to moderate in FY2022 owing to cost-side pressures. Nonetheless, the cost optimisation initiatives taken by the company to moderate freight costs (by purchase of own fleet) and power & fuels costs (by investing in WHRS capacities) are likely to support the OPBITDA/MT going forward.

Further, the liquidity position of the group remains strong supported by free cash and liquid investments of Rs. 504.9 crore and cushion in the form of significant undrawn working capital limits as on September 30, 2021. The company's capex plans towards setting up of WHRS capacity and clinker expansion to be executed during FY2022-FY2024 are expected to be met out of internal accruals and hence, the capital structure and debt protection metrics are likely to remain strong over the medium term.

Expected improvement in revenues in FY2022; long term growth prospects remain strong – In H1FY2022, SCL witnessed a sales volume growth of 28% YoY to 1.38 MTPA, supported by the low base effect of the previous year. Demand is expected to be strong in H2 FY2022 and sales volumes are likely to be higher by 10-11% YoY. The long-term demand prospects remain positive because of the Government's thrust on the affordable housing and infrastructure segments.

Established market position of Star Group in northeastern region – The Star Group is one of the largest cement manufacturers and is an established brand in North East India with a market share of ~23% in FY2021. The Star Group has a consolidated cement production capacity of 5.7 MTPA of which 65% is in the North East (32% of the total installed capacity as on March 31, 2021) and the remaining in eastern India. With the commencement of the 2-MTPA Siliguri grinding unit from Q4 FY2021, the Group is likely to diversify its sales in the eastern states. It has a wide distribution network of more than 2,000 dealers and 12,000 retailers.

A strong brand presence across the northeastern region enables the Group to enjoy premium pricing compared to some of the other cement companies located in the region. Availability of tax benefits and GST refunds further strengthen the operating profile of the consolidated entity and result in cost savings. The Group's operations also remain integrated, supported by a clinkerisation facility of 2.8 MTPA, captive limestone mines and a 51-MW power plant which aid operational efficiency.

Credit challenges

Modest scale of operations and geographical concentration of sales in North East India – SCL's geographical mix remains concentrated with sales mostly in the northeastern states (80% sales in FY2021), followed by West Bengal (16% sales in FY2021) and Bihar (4% sales in FY2021). Such concentration of sales has resulted in a modest scale of operations compared to other national level cement players. ICRA, however, notes that the Group has expanded its footprint in the past few years in other eastern states on the back of its large-scale marketing and establishment of an extensive dealer network. Further, penetration in the eastern markets is likely to be better with the commissioning of its 2-MTPA grinding unit in Siliguri, West Bengal. However, the extent of the reduction in its dependence on the northeastern region, which is 80% at present, along with the ability of the Group to sustain its profitability, will be a key monitorable.

Vulnerability of revenues to cyclicality in economy; susceptibility of profitability to fluctuations in input prices - The Star Group remains exposed to the demand and pricing dynamics of the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. Besides, the profitability remains susceptible to the fluctuations in input prices, primarily coal and diesel. Given the elevated prices of coal and diesel, the group's profitability is likely to remain under pressure in the near term.

Liquidity position: Strong

The Star Group's liquidity position is strong with healthy cash flow from operations, large free cash and liquid investments of Rs. 504.9 crore as on September 30, 2021 and marginal debt repayment obligations in FY2022. Further, the Group's working-capital lines remain largely undrawn as on September 30, 2021. Although there are capex plans towards setting up of WHRS capacity and clinker expansion to be executed during FY2022-FY2024, the Group is expected to be able to comfortably meet its capex commitments largely through internal accruals.

Rating sensitivities

Positive factors: ICRA could upgrade the ratings if there is a sustained increase in revenues and earnings on the back of the geographical diversification initiatives of the Star Group, while maintaining a comfortable leverage, debt coverage metrics as well as a strong liquidity position.

Negative factors: Pressure on the ratings could arise if there is continued pressure on revenues and earnings, or if any significant debt-funded capital expenditure weakens the capital structure and debt coverage metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Cement Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SCL. As on March 31, 2021, the company had 5 subsidiaries that have been enlisted in Annexure-2.

About the company

Star Cement Limited (SCL, erstwhile Cement Manufacturing Company Limited) began its operations in 2005. It manufactures cement clinker and cement. Apart from a 0.78-MMTPA clinker manufacturing unit and 5.00-MMTPA cement grinding unit of SCL, at the consolidated level, the Group has additional facilities of a 0.67-MMTPA cement grinding unit (under Megha Technical and Engineers Private Limited-MTEPL), a 2.00-MMTPA clinker manufacturing unit (under Star Cement Meghalaya Limited- SCML) and a 51-MW captive coal-based power plant (under Meghalaya Power Limited-MPL). The Star Group has a consolidated cement production capacity of 5.67 MTPA, of which 65% is in North East India and the remaining in eastern India. SCL holds 100% equity shares in MTEPL and MPL, and 87.49% in SCML (with the balance being held by MTEPL).

Key financial indicators (Audited)

SCL (consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	1843.1	1719.9
PAT (Rs. crore)	287.3	187.1
OPBDIT/OI (%)	21.4%	19.3%
PAT/OI (%)	15.6%	10.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.0	0.1
Interest Coverage (times)	42.2	47.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					10-Dec-21	20-Nov-20	8-Nov-19	8-Aug-19	8-Jun-18
1	Cash Credit	Long-term	131.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-fund Based Limits	Short-term	143.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Lender Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
State Bank of India	Cash Credit	-	-	-	16.0	[ICRA]AA- (Stable)
Indian Bank	Cash Credit	-	-	-	50.0	[ICRA]AA- (Stable)
DBS Bank India	Cash Credit	-	-	-	20.0	[ICRA]AA- (Stable)
Kotak Mahindra Bank	Working Capital Demand Loan/	-	-	-	30.0	[ICRA]AA- (Stable)
Indusind Bank	Working Capital Demand Loan/	-	-	-	15.0	[ICRA]AA- (Stable)
State Bank of India	LC/BG	-	-	-	14.0	[ICRA]A1+
Indian Bank	LC/BG	-	-	-	44.0	[ICRA]A1+
DBS Bank India	LC/BG	-	-	-	10.0	[ICRA]A1+
Kotak Mahindra Bank	LC/BG	-	-	-	15.0	[ICRA]A1+
Indusind Bank	LC/BG	-	-	-	60.0	[ICRA]A1+

Source: *SCL*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Company Name	BCL Ownership	Consolidation Approach
Star Cement Meghalaya Limited	87.49%	Full Consolidation
Megha Technical and Engineers Private Limited	100.00%	Full Consolidation
Meghalaya Power Limited	100.00%	Full Consolidation
NE Hills Hydro Limited	100.00%	Full Consolidation
Star Century Global Cement Private Limited	100.00%	Full Consolidation

Source: *SCL*

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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