Star Cement Limited

Instrument	Rated Amount	Rating Action
Cash Credit	Rs. 199.00 crore	[ICRA] A+ (Stable) assigned
Term Loans	Rs. 139.45 crore	[ICRA] A+ (Stable) assigned
Corporate Loans	Rs. 80.00 crore	[ICRA] A+ (Stable) assigned
Unallocated	Rs. 40.00 crore	[ICRA] A+ (Stable) assigned
Short term loans	Rs. 150.00 crore	[ICRA] A1 assigned
Letter of Credit/Bank Guarantee	Rs. 25.00 crore	[ICRA] A1 assigned

ICRA has assigned a long term rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 458.45-crore[1] cash credit, term loan, corporate loan and unallocated bank facilities of Star Cement Limited (SCL)[2]. The outlook on the long-term rating is Stable. ICRA has also assigned a short term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs 175.00-crore short term loans and letter of credit/bank guarantee facilities of the company.

ICRA has taken a consolidated view for the ratings of Star Cement Limited (SCL), Star Cement Meghalaya Limited (SCML), Megha Technical & Engineers Private Limited (MTEPL) and Meghalaya Power Limited (MPL), given common management and significant operating linkages.

The ratings take into account the group's established market position in the cement manufacturing business in the North-East of India, with an estimated market share of ~26%, integrated nature of operations with healthy operating efficiencies and the experience of the management of more than fifteen years. In addition, the strong presence of the "Star Cement" brand enables it to enjoy premium pricing as compared to some of the other cement companies located in the region. This along with the fiscal incentives / benefits enjoyed by the group under NEIIPP[3] 2007 results in healthy operating profitability. Further, the favourable location of group's manufacturing units provides it with access to high calorific value coal at competitive rates. The rating also factors in the comfortable capital structure and coverage indicators at the consolidated level.

The ratings are however constrained by the large subsidy receivable, which adversely affects the cash flow of the consolidated entity, the cyclicality inherent in the cement industry that leads to variability in the group's profits and cash flows and concentration of sales in the North Eastern region of India. ICRA however expects the demand-supply scenario in the region to remain favourable at least over the medium term, given the thrust on infrastructure development in the area and limited capacity addition on the anvil. Moreover, ICRA notes that the group has, in the past few years, expanded its footprint in the Eastern states of India and has been able to establish a decent market for its brand. The group plans to continue to expand its presence in the region. Going forward, the success of such further geographical diversification initiatives along with the timeliness of receipt of both outstanding and accruing benefits/subsidies under the NEIIPP 2007 scheme would be key factors determining the overall risk profile of the consolidated entity.

At a standalone level, SCL has two cement grinding units – 0.59 MMTPA in Lumshnong and 2.00 MMTPA in Guwahati, and three hired units in West Bengal with aggregate capacity of 0.7 MMTPA. SCL sources part of its clinker requirements from in-house clinker unit (0.79 MMTPA) and balance from its group company - SCML. Most of the power required in Lumshnong unit is generally met from its group company - MPL, while the Assam unit procures power from outside. Over the past few years, the group has made steady increase in its production capacity which has resulted in healthy revenue growth as well as increase in market share, both at the standalone and consolidated level. Although the capacity expansion was partly debt-funded, which led to increased debt levels, healthy accretion to reserves along with repayment of debt obligations has led to an improvement in the group's gearing and coverage indicators.

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[3] Under North East Industrial and Investment Promotion Policy (NEIIPP), all the new industrial units as well as existing units which go in for substantial expansion within the 10 year period from the 1st April, 2007 will be eligible for various incentives such as Excise Duty Exemption, VAT remission, Income Tax Exemption, Capital Investment Subsidy, Interest Subsidy and Transport Subsidy

Company Profile
Star Cement Limited (SCL) began its operations in 2005 and it manufactures cement clinker and cement. It is a subsidiary of Star Ferro and Cement Limited which holds 70.48% shares in the company. SCL is promoted by Mr. Sajjan Bhajanka, Mr. Hari Prasad Agarwal, Mr. Sanjay Agarwal, Mr. Prem Kumar Bhajanka and Mr. Rajendra Chamaria, who also have interests in plywood, laminates, ferro alloys, among others. The company's name was changed from Cement Manufacturing Company Limited (CMCL) to Star Cement Limited (SCL) in June 2016.

At the consolidated level, the group has the following additional facilities – a 0.67 MMTPA cement grinding unit (under MTEPL), a 1.75 MMTPA clinker manufacturing unit (under SCML) and a 51 MW captive coal based power plant (under MPL). SCL holds 100% equity shares in MTEPL, 87.49% in SCML (with the balance being held by MTEPL) and 51% in MPL. Currently, SFCL is in the process of being merged with SCL under a reverse merger scheme. Post merger, the revised promoter shareholding in SCL is expected to be 74.90%.

Latest Results
On a consolidated basis, the group reported a net profit of Rs. 139.34 crore on an operating income (OI) of Rs. 1715.03 crore in FY2016 as against a net profit of Rs. 121.32 crores on an OI of Rs. 1430.43 crores in FY2015.

On a standalone basis, SCL reported a net profit of Rs. 56.30 crore on an OI of Rs. 1415.99 crore in FY2016. During FY2015, the company had reported a net profit of Rs. 46.03 crores on an OI of Rs. 1113.62 crores.

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For further details please contact:
Analyst Contacts:
Mr. Jayanta Roy, (Tel. No. +91-33-22876617 / 22800008)
jayanta@icraindia.com

Mr. Kaushik Das (Tel. No. +91 33 7150 1104)
kaushikd@icraindia.com

Mr. Vivek Goenka (Tel. No. +91 33 7150 1188)
vivek.goenka@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500