

October 03, 2017

## Star Cement Limited

### Summary of rated instruments

| Instrument*                     | Rated Amount<br>(in crore) | Rating action                    |
|---------------------------------|----------------------------|----------------------------------|
| Commercial Paper                | Rs. 50.00 crore            | [ICRA]A1+; assigned              |
| Cash Credit                     | Rs. 199.00 crore           | [ICRA]A+ (Positive); outstanding |
| Term Loans                      | Rs. 139.45 crore           | [ICRA]A+ (Positive); outstanding |
| Corporate Loans                 | Rs. 80.00 crore            | [ICRA]A+ (Positive); outstanding |
| Unallocated                     | Rs. 40.00 crore            | [ICRA]A+ (Positive); outstanding |
| Short term loans                | Rs. 150.00 crore           | [ICRA]A1+; outstanding           |
| Letter of Credit/Bank Guarantee | Rs. 25.00 crore            | [ICRA]A1+; outstanding           |

\*Instrument Details are provided in Annexure-1

### Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 50.00-crore commercial paper programme of Star Cement Limited (SCL). ICRA also has outstanding short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs 175.00-crore short term loans and letter of credit/bank guarantee facilities of the company. ICRA also has outstanding long-term rating of [ICRA]A+ (pronounced ICRA A plus)<sup>1</sup> for the Rs. 458.45-crore<sup>2</sup> cash credit, term loan, corporate loan and unallocated bank facilities of the company. The outlook on the long-term rating is 'Positive'.

### Rationale

The rating action takes into account the improvement in the consolidated financial performance during FY2017 and Q1FY2018, as evidenced by an improvement in the capital structure and debt coverage indicators. Further, the rating action is also supported by the recent receipt of a portion of the accumulated subsidy receivable, for two of the companies in the group, which improves liquidity. ICRA notes that the companies have utilized the receipt to prepay debt. The ratings continue to factor in 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. Further, the favourable location of group's manufacturing units provides it with access to high calorific value coal at competitive rates. This along with the fiscal incentives / benefits enjoyed by the group under NEIIPP 2007 resulted in healthy operating profitability for FY2017 and Q1FY2018. ICRA notes that although the transport subsidy benefit is scheduled to expire in the near term, the group's overall financial profile is expected to remain comfortable given the group's healthy operating parameters.

The long-term rating is however constrained by the cyclicity inherent in the cement industry that leads to variability in the group's profits and cash flows. Moreover, concentration of sales in the North Eastern region of India results in geographical concentration risks. 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

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

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 balance outstanding subsidies as well as accruing benefits/subsidies under the NEIIPP 2007 scheme would be key factors determining the overall risk profile of the consolidated entity.

### Key rating drivers

#### Credit strengths

- **Established market position of the group and long experience of the promoters in the cement industry** - Star Cement Limited (formerly Cement Manufacturing Company Limited), along with its group companies, is one of the largest cement manufacturers in North-East India. It commenced operations in 2005 and its product range includes Ordinary Portland Cement and Portland Pozzolana Cement (PPC). At a standalone level, SCL has two cement grinding units – 0.99 MMTPA in Lumshnong and 2.00 MMTPA in Guwahati, and three leased units in West Bengal with aggregate capacity of 0.72 MMTPA. It also has a 0.79 MMTPA clinker manufacturing unit in Lumshnong.
- **Integrated nature of operations with operationally efficient cement units** – The group companies source entire of their clinker requirements from in-house clinker manufacturing units in Meghalaya. A significant portion of limestone consumed is sourced from captive reserves with the balance being purchased from local suppliers. Most of the power required in the Meghalaya clinker and cement grinding units is generally met from the 51-MW capacity of another group company, while the cement grinding unit in Assam is dependent on procurement from external sources. Further, the favourable location of the group’s manufacturing units provides it with access to high-calorific value coal at competitive rates.
- **Fiscal and other benefits under NEIIPP 2007 supports profitability** - The group’s clinker manufacturing and cement grinding units are eligible for a number of fiscal benefits primarily under the NEIIPP 2007 scheme of the Government of India. The scheme benefits include subsidy on freight expenses (inward and outward), exemptions on excise duty, sales tax and income tax. Although the freight subsidy benefit is due to expire in the near term, the company / group would continue to enjoy other benefits.
- **Strong brand presence enables the group to enjoy premium pricing** - “Star Cement” is an established brand in the North Eastern region of India. The group enjoys an estimated market share of ~26%, making it one of the largest players in the region. The strong brand presence also enables the group to enjoy premium pricing compared to some of the other cement companies located in the region.

#### Credit weaknesses

- **Cyclicality inherent in the cement industry that leads to variability in profits and cash flow** - The group margins are exposed to the cyclicality inherent in the cement industry. However, the demand-supply scenario in the region is expected 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.
- **Geographical concentration of sales in North-East India; however the group has been expanding its footprint in Eastern India** - The group is exposed to geographical concentration risks as a major part of its sales are made in North-East India. ICRA however notes that the group has, in the past few years, expanded its footprint in other Eastern states in India on the back of large scale marketing and establishment of an extensive dealer network. This is likely to lead to some geographical diversification going forward.

**Analytical approach:** For arriving at the ratings, 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.

**Links to applicable criteria**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Cement Industry](#)

**About the company:**

Star Cement Limited (SCL, erstwhile Cement Manufacturing Company Limited) began operations in 2005. It manufactures cement clinker and cement. 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.

Apart from the clinker and cement grinding units of SCL, 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. The holding structure of the group has recently undergone some changes, with the erstwhile parent company, Star Ferro and Cement Limited (SFCL), merged with SCL under a reverse merger scheme (appointed date at April 01, 2016). Post merger, SCL's equity shares are listed on NSE and BSE (from June 2017). The promoters' shareholding in SCL stands at 74.90% at present.

On a consolidated basis, the group reported a net profit of Rs. 177.53 crore on an operating income (OI) of Rs. 1728.00 crore in FY2017 as against a net profit of Rs. 139.34 crore on an operating income (OI) of Rs. 1715.03 crore in FY2016. SCL reported a net profit of Rs. 109.70 crore on an operating income (OI) of Rs. 450.54 crore in Q1FY2018 as against a net profit of Rs. 36.73 crore on an operating income (OI) of Rs. 407.65 crore in Q1FY2017.

On a standalone basis, SCL reported a net profit of Rs. 73.08 crore on an OI of Rs. 1400.63 crore in FY2017. During FY2016, the company had reported a net profit of Rs. 56.30 crore on an OI of Rs. 1415.99 crore. SCL reported a net profit of Rs. 68.41 crore on an operating income (OI) of Rs. 414.23 crore in Q1FY2018 as against a net profit of Rs. 6.50 crore on an operating income (OI) of Rs. 360.97 crore in Q1FY2017.

**Key Financial Indicators (Audited)**
**SCL (Consolidated)**

|                              | FY2016  | FY2017  |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 1715.03 | 1728.00 |
| PAT (Rs. crore)              | 139.34  | 177.53  |
| OPBDIT/ OI (%)               | 23.29%  | 23.66%  |
| RoCE (%)                     | 12.20%  | 13.63%  |
|                              |         |         |
| Total Debt/ TNW (times)      | 0.85    | 0.62    |
| Total Debt/ OPBDIT (times)   | 2.35    | 1.94    |
| Interest coverage (times)    | 4.79    | 5.24    |
| NWC/ OI (%)                  | 60%     | 65%     |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

**SCL (Standalone)**

|                              | FY2016  | FY2017  |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 1415.99 | 1400.63 |
| PAT (Rs. crore)              | 56.30   | 73.08   |
| OPBDIT/ OI (%)               | 11.67%  | 12.88%  |
| RoCE (%)                     | 10.49%  | 11.99%  |
|                              |         |         |
| Total Debt/ TNW (times)      | 1.00    | 0.95    |
| Total Debt/ OPBDIT (times)   | 3.47    | 3.41    |
| Interest coverage (times)    | 3.36    | 3.20    |
| NWC/ OI (%)                  | 40%     | 47%     |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:  
Table:**

| S.No | Name of Instrument              | Current Rating (FY2018) |                           |                         |                         | Chronology of Rating History for the past 3 years |                         |                         |
|------|---------------------------------|-------------------------|---------------------------|-------------------------|-------------------------|---------------------------------------------------|-------------------------|-------------------------|
|      |                                 | Type                    | Rated amount (Rs. Crores) | Date & Rating           |                         | Date & Rating in FY2017                           | Date & Rating in FY2016 | Date & Rating in FY2015 |
|      |                                 |                         |                           | <b>October 2017</b>     | <b>August 2017</b>      | <b>November 2016</b>                              | -                       | -                       |
| 1    | Cash Credit                     | Long Term               | 199.00                    | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Stable)                             | -                       | -                       |
| 2    | Term Loans                      | Long Term               | 139.45                    | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Stable)                             | -                       | -                       |
| 3    | Corporate Loans                 | Long Term               | 80.00                     | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Stable)                             | -                       | -                       |
| 4    | Unallocated                     | Long Term               | 40.00                     | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Positive) | [ICRA]<br>A+ (Stable)                             | -                       | -                       |
| 5    | Short term loans                | Short Term              | 150.00                    | [ICRA]<br>A1+           | [ICRA]<br>A1+           | [ICRA]<br>A1                                      | -                       | -                       |
| 6    | Letter of Credit/Bank Guarantee | Short Term              | 25.00                     | [ICRA]<br>A1+           | [ICRA]<br>A1+           | [ICRA]<br>A1                                      | -                       | -                       |
| 7    | Commercial Paper                | Short Term              | 50.00                     | [ICRA]<br>A1+           | -                       | -                                                 | -                       | -                       |

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

| <b>Instrument</b>               | <b>Date of Issuance/<br/>Sanction</b> | <b>Coupon Rate</b> | <b>Maturity Date</b> | <b>Amount Rated (Rs. Crore)</b> | <b>Current Rating and Outlook</b> |
|---------------------------------|---------------------------------------|--------------------|----------------------|---------------------------------|-----------------------------------|
| Cash Credit                     | -                                     | -                  | -                    | 199.00                          | [ICRA]A+(Positive)                |
| Term Loans                      | -                                     | -                  | March 2021           | 139.45                          | [ICRA]A+(Positive)                |
| Corporate Loans                 | -                                     | -                  | -                    | 80.00                           | [ICRA]A+(Positive)                |
| Unallocated                     | -                                     | -                  | -                    | 40.00                           | [ICRA]A+(Positive)                |
| Short term loans                | -                                     | -                  | -                    | 150.00                          | [ICRA]A1+                         |
| Letter of Credit/Bank Guarantee | -                                     | -                  | -                    | 25.00                           | [ICRA]A1+                         |
| Commercial Paper*               | -                                     | -                  | -                    | 50.00                           | [ICRA]A1+                         |

Source: Star Cement Limited; \*Commercial Paper yet to be issued

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