Star Cement Limited Revised

June 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	199.00	219.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive)
Term Loans	219.45	14.70	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive)
Unallocated	40.00	Nil	-
Short term loans	150.00	Nil	-
Letter of Credit/Bank Guarantee	25.00	58.00	[ICRA]A1+; reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**683.45**	**341.70**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 219 crore[1] (enhanced from Rs. 199 crore) cash credit limits and Rs. 14.70 crore (reduced from Rs. 219.45 crore) term loans of Star Cement Limited (SCL) to [ICRA]AA- (pronounced ICRA double A minus), with a stable outlook, from [ICRA]A+ (pronounced ICRA A plus), with a positive outlook. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 58 crore (enhanced from Rs. 25 crore) letter of credit/bank guarantee limits and Rs. 50 crore commercial paper programme of SCL[2].

Rationale

The rating action takes into account the improvement in the consolidated financial performance of the Star Cement Group during FY2018, as evidenced by an improvement in the business return indicators, capital structure and debt coverage indicators estimated for the year. In addition to a considerable increase in the operating profit, receipt of a high amount of subsidy, which had been accrued earlier under NEIIPP 2007, has resulted in robust cash flows, with the companies utilizing the same to prepay debt. While ICRA notes that the availability of subsidies will reduce substantially going forward, given the expiry of the transport subsidy, ICRA expects the group's overall financial profile to remain healthy.

The ratings also 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 ~24% in FY2018, integrated nature of operations with healthy operating efficiencies, and the experience of the management of more than fifteen years. The favourable location of group's manufacturing units also provides it with access to high calorific value coal at competitive rates. In addition, the strong presence of the "Star Cement" brand enables the Group to enjoy premium pricing as compared to some of the other cement companies located in the region. The long-term rating is, however, constrained by the cyclicality 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 a relatively small scale of operations, compared to other national level cement players, and 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

[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*

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 ability of the company to sustain profitability would be key factors determining the overall risk profile of the consolidated entity.

Outlook: Stable

ICRA believes that the Star Cement Group will continue to benefit from the integrated nature of its operations, as well as the favourable demand outlook for cement in North-East India, given its position as the market leader in the region. The outlook may be revised to Positive if substantial growth in revenue and return indicators, on the back of the Group's geographical diversification initiatives, strengthens the financial risk profile. The outlook may be revised to 'Negative' in case a supply-demand imbalance results in a considerable dip in prices and, therefore, weakens profitability.

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 sources its entire clinker requirement from in-house clinker manufacturing units in Meghalaya. A significant portion of the limestone consumed is also sourced from captive reserves, with the balance being purchased from local suppliers. Most of the power required by the clinker and cement grinding units located in Meghalaya is met from the 51-MW in-house power capacity of the Group as well. The cement grinding unit in Assam, however, is dependent on external sources for the procurement of power. Further, the favourable location of the group's manufacturing units provides it with access to high-calorific value coal at competitive rates.

Considerable increase in operating profit and receipt of high amount of subsidy resulted in robust cash flows, with the Group utilizing the same to prepay debt – Increasing cement realizations and cost rationalization led to a considerable increase in the operating profit of the Group in FY2018. Moreover, the Group's clinker manufacturing and cement grinding units were eligible for a number of fiscal benefits, primarily under the NEIIPP 2007 scheme of the Government of India. The scheme benefits included subsidy on freight expenses (inward and outward), exemptions on excise duty, sales tax and income tax. A large portion of the subsidy, for which the Star Cement Group was eligible, had been accrued in past years. Receipt of around Rs. 512 crore of this accrued subsidy over the past fifteen months resulted in a considerable improvement in cash flows. ICRA notes that the Group has utilized its cash accruals to prepay debt, which has, in turn, led to further improvement in the Group's debt metrics.

Going forward however, ICRA notes that the availability of subsidies will reduce substantially, given the expiry of the transport subsidy and the introduction of the NEIDS, 2017 in lieu of the NEIPP, 2007, although certain Group companies will continue to enjoy some benefits under the NEIPP, 2007, until expiry of the same. Nonetheless, the group's overall financial profile is expected to remain healthy.

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 ~24%, making it the market leader in the region. Strong brand presence enables the group to enjoy premium pricing compared to some of the other cement companies located in the region.

Credit challenges

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.

Small scale of operations and geographical concentration of sales in North-East India; however the group has been expanding its footprint in Eastern India - Concentration of sales in the North Eastern region of India results in a relatively small scale of operations, compared to other national level cement players, and geographical concentration risks. 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. It is also planning on establishing a 2 MMTPA grinding unit in Siliguri within FY2020. This is likely to lead to 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 the common management and significant operating linkages.

Links to applicable criteria:

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 87.49% in SCML (with the balance being held by MTEPL) and 51% in MPL. Going forward, the group plans to merge MTEPL with SCL, and has sought necessary approvals for the same.

On a consolidated basis, the group reported a net profit of Rs. 336.2 crore on an operating income (OI) of Rs. 1614.5 crore in FY2018 as against a net profit of Rs. 200.9 crore on an operating income (OI) of Rs. 1527.8 crore in FY2017. On a standalone basis, SCL reported a net profit of Rs. 210.8 crore on an operating income (OI) of Rs. 1463.8 crore in FY2018 as against a net profit of Rs. 80 crore on an operating income (OI) of Rs. 1284.1 crore in FY2017.

Key financial indicators (audited)

SCL (Consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	1,527.8	1,614.5
PAT (Rs. crore)	200.9	336.2
OPBDIT/OI (%)	26.7%	32.3%
RoCE (%)	-	21.4%
Total Debt/TNW (times)	0.7	0.3
Total Debt/OPBDIT (times)	2.0	0.8
Interest coverage (times)	5.2	9.9

SCL (Standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	1,284.1	1,463.8
PAT (Rs. crore)	80.0	210.8
OPBDIT/OI (%)	14.0%	22.2%
RoCE (%)	-	22.8%
Total Debt/TNW (times)	1.0	0.5
Total Debt/OPBDIT (times)	3.5	1.3
Interest coverage (times)	3.2	7.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No	Name of Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Current Rated Amount (Rs. Cr)	Amount Outstanding (Rs. Cr)	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					June 2018	September 2017	August 2017	November 2016	-
1	Cash Credit	Long Term	219.00	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-
2	Term Loans	Long Term	14.70	10.34	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-
3	Unallocated	Long Term	Nil	-	-	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-
4	Short term loans	Short Term	Nil	-	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	-
5	Letter of Credit/Bank Guarantee	Short Term	58.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	-
6	Commercial Paper	Short Term	50.00	-	[ICRA] A1+	[ICRA] 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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	219.00	[ICRA]AA- (Stable)
NA	Term Loans	Nov, 2017	NA	FY2021	14.70	[ICRA]AA- (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	58.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	NA	50.00	[ICRA]A1+

Source: SCL

Corrigendum:

Rationale dated June 08, 2018 has been corrected with revisions as detailed below:

- Credit strengths on page 2 have been modified to include the following sentence “although certain Group companies will continue to enjoy some benefits under the NEIPP, 2007, until expiry of the same”
- Financial results captured in the “About the Company” section on page 3 have been updated to include full-year FY2018 numbers
- Tables for key financial indicators on page 4 have been updated to include full-year FY2018 numbers

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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.

For more information, visit www.icra.in

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