

March 15, 2023

## Star Cement Limited: Ratings reaffirmed; outlook revised to Positive from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits	131.00	131.00	[ICRA]AA-, reaffirmed; outlook revised to Positive from Stable
Short-term – Non-fund Based Facilities	143.00	143.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>274.00</b>	<b>274.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook to Positive factors in the expected increase in Star Cement Limited's (SCL or the Group) scale of operations and operating profits, and further strengthening of its presence in the North East (NE) region upon achieving significant progress in the ongoing capital expenditure. The company plans to expand its cement capacity by 4 million MTPA and clinker capacity by 3 million MTPA, in a phased manner, during FY2024-FY2026. Additionally, it is setting up a 23-MW waste heat recovery systems (WHRS), of which 12-MW capacity is expected to be operational in March 2023 and another 11-MW capacity will be operational in December 2024, which would aid in savings in power costs.

The rating reaffirmation continues to factor in the Group's established market position in the cement manufacturing business in North-East India with a significant market share and its integrated nature of operations. Further, a wide distribution network of more than 2,000 dealers and 12,000 retailers resulted in a strong brand presence across the north eastern region, enabling the Group to enjoy premium pricing compared to the peers. The rating considers the company's strong financial risk profile as reflected in its healthy operating profitability, comfortable capital structure and debt protection metrics. The Group reported 28% YoY growth in its operating income (OI) in 9M FY2023, supported by healthy growth in volumes of 24% YoY and realisations by 3% YoY. For FY2023, the OI is likely to grow by 21-23% YoY. The long-term demand prospects remain positive, given the Government's thrust on the affordable housing and infrastructure segments. Despite the increase in input costs, the Group is able to maintain healthy operating profitability of 16.1% in 9M FY2023 (15.7% in 9M FY2022), driven by the cost optimisation initiatives viz. improvement in efficiency of operations of the kilns, which has led to lower energy usage resulting in lower power and fuel costs and control over freight costs by usage of own fleet of vehicles for transportation against using services of third-party logistics providers. The OPBDITA/MT in 9M FY2023 improved by 5% YoY to Rs. 1,087/MT and expected to remain in the range of Rs. 1,100-1,150/MT in FY2023. While the subsidy benefits from one of the plants have expired in January 2023, the same is likely to be compensated by savings from one of the WHRS plants, which is expected to become operational in March 2023. The OPBDITA/MT in FY2024 is estimated to be in the range of Rs. 1,155-1,195/MT.

The Group's debt coverage metrics continued to remain strong in H1 FY2023 with interest cover of 37.1 times, (25.9 times in FY2022), DSCR of 27.8 times (25.0 times in FY2022). As on September 30,2022, the group had a negative net debt status, due to limited debt of Rs. 57.9 crore (including lease liability) and healthy cash and liquid investment balance of Rs 627.7 crore (excluding long term investments held in form of fixed deposits). The Group's leverage is likely to increase during FY2024-FY2026, given the sizeable capex plans and the associated debt funding. Nonetheless, ICRA expects the net debt/OPBDITA to remain comfortable below 1.5 times during this period, supported by increase in scale, healthy profitability, and sizeable cash and liquid investments.

The ratings are, however, constrained by the high geographical concentration risks as its presence is concentrated in the NE region. The Group remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. ICRA, however, notes that the competition is relatively lower in the NE region and transportation from other markets would lead to higher freight costs due to hilly terrain. SCL's penetration into the eastern markets has improved with the commissioning of its 2-MTPA grinding unit in Siliguri, West Bengal in January 2021, leading to an increase in sales to the eastern markets such as West Bengal, Bihar and Jharkhand. Although the higher penetration in the eastern markets is likely to aid in geographical diversification, the Group's ability to increase its presence outside the NE, while sustaining profitability at healthy levels by managing input costs will remain important.

## Key rating drivers and their description

### Credit strengths

**Strong financial risk profile; scale of operations expected to increase** – The OI increased by 28% YoY in 9M FY2023 to Rs. 1,879.8 crore, driven by healthy volume growth of 24% YoY and growth in realisations by 3% YoY. For FY2023, the revenues are estimated to grow by 21-23% YoY. Demand is likely to be strong in FY2024 and the revenues are likely to be higher by 6-7% YoY. With significant progress in the ongoing capital expenditure, the scale of operations and operating profits are expected to increase gradually. Despite the rise in input costs, the Group is able to maintain healthy operating profitability of 16.1% in 9M FY2023 (15.7% in 9M FY2022), supported by the cost optimisation initiatives viz. improvement in efficiency of operations of the kilns, which led to lower energy usage resulting in lower power and fuel costs and control over freight costs by usage of own fleet of vehicles for transportation against using services of third-party logistics providers. The OPBDITA/MT in 9M FY2023 improved by 5% YoY to Rs. 1,087/MT and ICRA expects the same to remain in the range of Rs. 1,100-1,150/MT in FY2023. The Group's debt coverage metrics continued to remain strong in H1 FY2023 with interest cover of 37.1 times, (25.9 times in FY2022), DSCR of 27.8 times (25.0 times in FY2022). As on September 30, 2022, the group had a negative net debt status, due to limited debt of Rs. 57.9 crore (including lease liability) and healthy cash and liquid investment balance of Rs 627.7 crore (excluding long term investments held in form of fixed deposits). With increase in long-term debt to fund the proposed capex plans, the debt coverage metrics are likely to moderate from FY2024. Nonetheless, it is expected to remain at comfortable levels.

**Established market position of Star Group in NE region; strong long-term growth prospects** – The Star Group is one of the largest cement manufacturers and is an established brand in NE India with a market share of ~24-25% in FY2022. It has a consolidated cement production capacity of 5.7 MTPA, of which 65% is in the NE region (32% of the total installed capacity as on March 31, 2021) and the remaining in eastern India. It has a wide distribution network of more than 2,000 dealers and 12,000 retailers. A strong brand presence across the NE region enables the Group to enjoy premium pricing compared to some of the other cement companies located in the region. The Group's operations remain integrated, supported by a clinkerisation facility of 2.8 MTPA, captive limestone mines and a 51-MW power plant, which aid operational efficiency. Further, the long-term demand prospects remain positive because of the Government's thrust on the affordable housing and infrastructure segments. Additionally, the Group's cement capacity expansion plans are likely to support revenue growth going forward.

**Capital structure expected to remain strong despite sizeable capex plans** – There are expansion plans of ~Rs. 2,880 crore towards setting up of a 4-MTPA cement capacity and a 3-MTPA of clinker capacity, which is scheduled to be completed during FY2024-FY2026. Further, there are plans to add 12 MW and 11 MW of WHRS by March 2023 and December 2024, respectively. The leverage and debt coverage metrics remained comfortable with negative net debt as on September 30, 2022. The large ongoing capex, which will be partially debt funded, is likely to result in an increase in leverage. However, the Net debt/OPBITDA is estimated to remain comfortable below 1.5 times in FY2024-FY2026.

## Credit challenges

**Geographical concentration of sales in NE India** – The Group’s geographical mix remains concentrated with sales mostly in the north-eastern states (70% sales in H1 FY2023), followed by West Bengal (20% sales in H1 FY2023) and Bihar (10% sales in H1 FY2023). Such sales concentration exposes the Group to regional demand and supply fluctuations. However, the Group has expanded its footprint 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 has improved with the commissioning of its 2-MTPA grinding unit in Siliguri, West Bengal in January 2021, leading to an increase in sales to the eastern markets such as West Bengal, Bihar and Jharkhand. The eastern region accounted for 25% and 30% of the total sales volume in FY2022 and H1 FY2023 over 20% in FY2021. Nevertheless, the extent of reduction in its dependence on the NE region, which is 70% at present, along with the Group’s ability to sustain its profitability by managing input costs, will remain important.

**Vulnerability of revenues to cyclicity in economy; susceptibility of profitability to fluctuations in input prices** – The Group remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. However, the competition is relatively lower in the NE region and transportation from other markets would lead to higher freight costs due to hilly terrain. Further, the Group’s operating profitability remains susceptible to fluctuations in input prices. In FY2022, the OPM declined by 380 bps, on a YoY basis, to 15.5% primarily owing to an increase in input cost as well as the lower profitability of the Siliguri plant, given the initial year of operations. The OPM in FY2023 is likely to be in the range of 16-17%.

## Liquidity position: Adequate

The Star Group’s liquidity position is adequate. As on September 30, 2022, the Group had free cash and liquid investments of Rs. 627.7 crore. The debt repayments for H2 FY2023 and FY2024 are modest. The Group has capex plans of ~Rs. 2,880 crore towards setting up of 23-MW WHRS capacities, expansion of cement capacity by 4 million MTPA and clinker expansion by 3 million MTPA to be executed during FY2023-FY2026. It is expected to fund the same through its internal accruals, available cash and liquid balances and term debt. The Group’s working capital lines remained largely undrawn with unutilised fund-based working capital limits of ~Rs. 90 crore in December 2022.

## Rating sensitivities

**Positive factors** – Significant progress in the capacity expansion plans providing improved geographical diversification and visibility for strong revenue growth, while maintaining comfortable leverage and debt coverage metrics, could lead to a rating upgrade.

**Negative factors** – Slower-than-expected ramp-up of new capacities impacting the returns could exert pressure on the company’s ratings. Any substantial increase in indebtedness or decline in profitability resulting in Net debt/OPBDITA of above 2.0 times, on a sustained basis, may lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Cement Companies</a> <a href="#">Rating Approach-Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SCL. As on March 31, 2022, the company had 7 subsidiaries that have been enlisted in Annexure-II.

## About the company

Star Cement Limited (SCL, erstwhile Cement Manufacturing Company Limited) began its operations in 2005. It manufactures clinker and cement. Apart from a 0.8-MMTPA clinker manufacturing unit and 5.00-MMTPA cement grinding unit of SCL, at the consolidated level, the Group has additional facilities of a 0.7-MMTPA cement grinding unit (under Megha Technical and Engineers Private Limited-MTEPL), a 2.0-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 5.7 MTPA, of which 65% is in the NE region and the remaining in the eastern India. SCL holds 100% equity share in MTEPL and MPL, and 87.49% in SCML (with the balance being held by MTEPL).

## Key financial indicators (audited)

SCL Consolidated	FY2021	FY2022	9M FY2023
Operating income	1719.9	2221.8	1879.8
PAT	187.1	246.8	151.5
OPBDIT/OI	19.34%	15.54%	16.10%
PAT/OI	10.88%	11.11%	8.10%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	-
Total debt/OPBDIT (times)	0.05	0.05	-
Interest coverage (times)	47.59	25.88	35.47

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: SCL, ICRA Research

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

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023 Mar 15, 2023	Date & rating in FY2022 Dec 10, 2021	Date & rating in FY2021 Nov 20, 2020	Date & rating in FY2020 Nov 08, 2019	Date & rating in FY2020 Aug 08, 2019
1	Cash credit/ Working Capital Demand Loan	131.00	--	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Letter of Credit/ Bank Guarantee	143.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Term Loans	-	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
4	Commercial Papers	-	-	-	-	-	-	[ICRA]A1+ withdrawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
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<b>Cash credit/ Working Capital Demand Loan</b>	Simple
<b>Letter of Credit/ Bank Guarantee</b>	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 analysing 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/ Working Capital Demand Loan	-	-	-	131.0	[ICRA]AA- (Positive)
NA	Letter of Credit/ Bank Guarantee	-	-	-	143.0	[ICRA]A1+

Source: SCL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	SCL 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
Star Cement (I) Ltd.	100.00%	Full Consolidation
Star Cement North East Limited	100.00%	Full Consolidation

Source: SCL

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### Branches



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