

November 20, 2020

Star Cement Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Facilities	104.00	100.00	[ICRA]AA-(Stable); Reaffirmed
Non-fund Based Facilities	68.00	68.00	[ICRA]A1+; Reaffirmed
Fund Based- Term Loan	290.00	0.00	-
Total	462.00	168.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Star Cement Limited (SCL) along with its subsidiaries, referred to as the Star Group. For arriving at its ratings, ICRA has noted the common management, and the close financial and operational linkages among these companies.

The reaffirmation of the ratings continues to factor in the Group's highly conservative capital structure, its strong debt protection metrics and a comfortable liquidity position, given a large free cash and bank balance, which impart a high degree of financial flexibility to the Group. While there has been some decline in the volume of cement sold and a moderation in the operating profitability due to the impact of the lockdown following the Covid-19 pandemic and elevated power and fuel costs, the financial performance remained healthy in FY2020 and H1 FY2021 on an absolute basis. The ratings continue to factor in the Star Group's established market position in the cement manufacturing business in the North East India, with an estimated market share of above ~23% in FY2020, its integrated nature of operations with healthy operating efficiencies, and more than 15 years of experience of the management. The ratings also consider the favourable location of the Group's manufacturing units with access to captive sources of limestone and power. In addition, the Group continues to enjoy premium pricing compared to some other cement companies located in the region primarily due to its brand, Star Cement.

The ratings are, however, constrained by the cyclical nature inherent in the cement industry that leads to variability in the Star Group's profits and cash flows. The Group has historically concentrated its presence in the North East region, which resulted in a relatively modest 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 addition on the anvil. Moreover, ICRA notes that the Group has expanded its footprint in the eastern states of India in the past few years and has been able to establish a modest market share for its brand. To further consolidate its position in the eastern states, the Group is in the process of setting up a 2-MMTPA grinding unit in Siliguri, West Bengal, which is expected to be operational by Q3 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.

The Stable outlook on the long-term rating reflects ICRA's opinion that the consolidated capital structure would remain highly conservative, which along with a large cash and bank balance provides healthy liquidity and financial flexibility.

The capacity utilisation levels reported by the Star Group has shown a sequential improvement in the recent months, which is expected to sustain going forward, leading to a healthy financial performance in FY2021.

Key rating drivers and their description

Credit strengths

Financial profile characterised by conservative capital structure, strong debt protection metrics and comfortable liquidity position – Notwithstanding some decline in the volume of cement sold and a moderation in the operating profitability due to the impact of the lockdown following the Covid-19 pandemic and an elevated power and fuel costs in FY2020, the Group's financial risk profile remains strong. This is corroborated from its near debt-free status as on March 31, 2020, which translated into strong debt protection metrics and is reflected in an interest coverage of 42.3 times in FY2020 (PY: 31.2 times). The comfortable liquidity position is reflected in the consolidated unencumbered cash and bank balance of ~Rs. 284 crore as on March 31, 2020. ICRA expects the capital structure and debt protection metrics to remain strong over the medium term given that the incremental capex, going forward, will be met out of accruals.

Established market position of the Star Group with long track record of operations – The Star Group is the largest cement manufacturer in North East India with an estimated market share of above ~23% in FY2020. It commenced operations in 2005 and its product range includes Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC). The Star Group has a consolidated cement production capacity of 4.4 MMTPA (including leased units). With the commencement of the 2-MMTPA Siliguri grinding unit, which is expected to be operational by Q3 FY2021, the Group is expected to further consolidate its position in the eastern states.

Integrated nature of business with operationally efficient cement units – The Star Group has strong operational efficiencies, resulting in healthy margins and accruals over the years. The Star Group had an operating profit margin of 21.4% in FY2020 (PY: 24.5%) and it generated net cash accruals of over Rs. 300 crore in FY2019 and FY2020. The Group's operations remain integrated, supported by a clinkerisation facility of 2.6 MMTPA, captive limestone mines and 51-MW power plant.

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 above ~23%, 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

Vulnerability of revenues to cyclical in economy; susceptibility of profitability to fluctuations in input prices – The Star 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. Besides, the profitability remains susceptible to fluctuations in input prices, primarily coal. Due to adverse developments in Meghalaya in FY2020, where the Group's clinker units are located, the erstwhile practice of local coal sourcing was discontinued and replaced with outside purchases of coal/imported coal, which increased the cost of landed coal and subsequently, the clinkerisation cost. However, coal prices have moderated in the current fiscal till date and as a result, the overall input cost is likely to remain favourable for the Group.

Modest scale of operations and geographical concentration of sales in North East India – In the past, the Group was concentrated in the North East region of India. Such concentration of sales resulted in a relatively modest scale of

operations, compared to other national level cement players, and geographical concentration risks. ICRA, however, notes that the Group has expanded its footprint in the past few years in other eastern states in India on the back of its large-scale marketing and establishment of an extensive dealer network. While higher penetration in the eastern markets is likely to aid in geographical diversification after commissioning of its 2-MMTPA grinding unit in Siliguri, West Bengal, the extent of reduction in dependence on the North East region, which is 75% at present, along with the ability of the Group to sustain its profitability, remains to be seen.

Liquidity position: Superior

The Star Group's liquidity position is **superior** with healthy cash flow from operations, large free cash and bank balances of ~Rs. 284 crore as on March 31, 2020, marginal debt repayment obligations in FY2021 and adequate buffer in the form of unutilised working capital limits. Overall, ICRA expects the Group to be able to comfortably meet its near-term capex commitments through internal accruals and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – The rating may be upgraded if there is a sustained increase in revenues on the back of geographical diversification initiatives of the Star Group, while maintaining the profitability margins and keeping the working capital requirements under check.

Negative triggers – A sustained period of adverse scenario in the industry, leading to a deterioration in the financial performance and/or any large debt-funded capex could trigger negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Cement Companies Consolidation and Rating Approach
Parent/Group Support	None
Consolidation/Stand-alone	For arriving at the ratings, ICRA has considered the consolidated financials of SCL. As on March 31, 2020, 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. 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 0.79-MMTPA clinker manufacturing unit and 2.99-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 1.75-MMTPA clinker manufacturing unit (under Star Cement Meghalaya Limited- SCML) and a 51-MW captive coal-based power plant (under Meghalaya Power Limited-MPL). SCL holds a 87.49% stake 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.

Key financial indicators (audited)

SCL Consolidated	FY2019	FY2020	H1FY2020	H1FY2021
Operating Income (Rs. crore)	1831.0	1843.9	843.3	693.9
PAT (Rs. crore)	305.0	287.3	129.2	105.7
OPBDIT/ OI (%)	24.5%	21.4%	20.9%	20.8%
PAT/OI (%)	16.7%	15.6%	15.3%	15.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1	-	-
Total Debt/OPBDIT (times)	0.2	0.0	-	-
Interest Coverage (times)	31.2	42.3	49.8	41.6

Source: SCL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding as on 31-March-2020	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
						20-Nov- 2020	8-Nov-2019		8-Aug-2019	8-Jun-2018
1	Cash Credit	Long Term	100.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
2	Term Loans	Long Term	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
3	Unallocated	Long Term	-	-	-	-	-	-	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
4	Short term loans	Short Term	-	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+
5	Letter of Credit/Bank Guarantee	Short Term	68.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial Paper	Short Term	-	-	-	-	Withdrawn	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore

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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	NA	NA	NA	100.00	[ICRA]AA-(Stable)
Letter of Credit/Bank Guarantee	NA	NA	NA	68.00	[ICRA]A1+

Source: SCL

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Star Cement Meghalaya Limited	87.49%	Full Consolidation
Megha Technical and Engineers Private Limited	100.00%	Full Consolidation
Meghalaya Power Limited	51.00%	Full Consolidation
NE Hills Hydro Limited	100.00%	Full Consolidation
Star Century Global Cement Private Limited	100.00%	Full Consolidation

Source: SCL

Analyst Contacts

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Deepayan Ghosh

+91 33 7150 1220

deepayan.ghosh@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents