August 08, 2019

Star Cement Limited: Bank loan ratings reaffirmed; rated amount enhanced; CP rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	50.00	0.00	[ICRA]A1+ withdrawn
Fund-based –Term Loan	14.70	290.00	[ICRA]AA-(Stable) reaffirmed
Fund-based – Cash Credit	219.00	144.00	[ICRA]AA-(Stable) reaffirmed
Non-fund Based Facilities	58.00	68.00	[ICRA]A1+ reaffirmed
Total	**341.70**	**502.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation considers the improvement in the Group's capital structure with the Group becoming debt free in the current year on the back of a large amount of subsidy receipt in FY2019 and Q1 FY2020, a part of which was used to prepay the debt, resulting in robust cash flows, healthy debt coverage indicators and strong liquidity position for the Group. ICRA notes that the operating margins have witnessed some contraction in FY2019 due to expiry of the transport and freight subsidy, and a sharp rise in coal prices. Nonetheless, profitability margins have remained healthy and going forward, ICRA expects some moderation in coal prices, thus supporting the profitability. While the Group has capital expenditure plans over the medium term, regular accretion to reserves and a healthy cash balance would result in very limited dependence on external debt to fund the same. As a result, capital structure and debt coverage indicators of the Group are expected to remain strong.

The ratings continue to factor in the Group's established market position in the cement manufacturing business in the North East India, with an estimated market share of ~23% in FY2019, 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. Moreover, the recent Supreme Court judgment re-allowing mining of coal in Meghalaya would provide 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 compared to some other cement companies located in the region.

The ratings are, however, constrained by the cyclicality inherent in the cement industry that leads to variability in the Group's profits and cash flows. While in the past, the Group has grown being concentrated in the north east region, it 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 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, as evident from its plan to establish a 2-MMTPA grinding unit in Siliguri, which is expected to be operational by the end of FY2020. Going forward, the success of such geographical diversification initiatives along with the ability of the company to sustain profitability would be the key factors in determining the overall risk profile of the consolidated entity.

Outlook: Stable

ICRA believes that Star Cement Limited (SCL) will continue to benefit from integrated nature of its operations, along with a favourable demand outlook in the North East India, given its position as the market leader in the region. The outlook may be revised to Positive if a substantial growth in revenue and profitability on the back of the Group's expansion and diversification initiatives, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or an adverse demand-supply situation results in a considerable dip in prices and therefore, weakens liquidity.

Key rating drivers

Credit strengths

Large receipt of subsidies resulted in an improved capital structure, healthy debt coverage indicators and strong liquidity – The Group's clinker manufacturing and cement grinding units were eligible for a number of fiscal benefits, primarily under the North East Industrial & Investment Promotion Policy (NEIIPP) 2007 of the Government of India. The scheme benefits include subsidy on freight expenses (inward and outward), exemption on excise duty, sales tax and income tax. A large portion of the subsidy, for which the Star Cement Group was eligible, was received in FY2019 and Q1 FY2020, which was used to prepay debt and for setting up the Siliguri grinding unit. Receipt of around Rs. 650 crore of accrued subsidy over the past 15 months resulted in a considerable improvement in its cash flows. ICRA notes that the Group has utilised such cash accruals to prepay its debt, which, in turn, led to a further improvement in the Group's debt metrics, resulting in the Group becoming debt free in the current year. Further, the debt coverage indicators remain healthy with an interest cover of ~31.2 times and DSCR of ~3.4 times in FY2019, on a consolidated basis.

Established market position of the Group and long experience of the promoters in the cement industry – SCL (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 an 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 limestone consumed is also sourced from captive reserves and the balance 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. The cement grinding unit in Assam, however, is dependent on external sources for the procurement of power. Further, the recent Supreme Court judgment, re-allowing coal mining in Meghalaya, will provide it with access to high calorific value coal at competitive rates.

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 ~25%, 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 leads to variability in profits and cash flow - The Group's 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 in the region.

Small scale of operations and geographical concentration of sales in North-East India – While in the past, the group has grown being concentrated in the North east region of India, such concentration of sales 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 expanded its footprint in the past few years in other eastern states in India on the back of large-scale marketing and establishment of an extensive dealer network. It is also establishing a 2-MMTPA grinding unit in Siliguri, which is expected to be operational by the end of FY2020. This is likely to lead to geographical diversification, going forward.

Liquidity position

The liquidity position of the company and the Group is strong with large free cash balances, negligible working capital utilisation levels and no debt repayment obligations on the back of receipt of large amount of subsidies in FY2019 and Q1 FY2020. Healthy liquidity and regular accretion to reserves would enable the company to meet its capex plans over the medium term without any material dependence on external debt funds. The company, nonetheless, also has an undrawn sanctioned term loan facility of Rs. 290 crore, which further supports its liquidity.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Cement Industry
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on consolidated financials, which include Star Cement Limited, Star Cement Meghalaya Limited, Meghalaya Power Limited and Megha Technical and Engineers Private Limited.

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 clinker and cement grinding units of SCL, at the consolidated level, the Group has additional facilities of 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 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.

On a consolidated basis, the Group reported a net profit of Rs. 305.0 crore on an operating income (OI) of Rs. 1,831.0 crore in FY2019 against a net profit of Rs. 368.9 crore on an operating income (OI) of Rs. 1,614.5 crore in FY2018. On a standalone basis, SCL reported a net profit of Rs. 255.9 crore on an operating income (OI) of Rs. 1,695.4 crore in FY2019 against a net profit of Rs. 210.7 crore on an OI of Rs. 1,463.8 crore in FY2018.

Key financial indicators (audited)

	Consolidated		Standalone	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	1614.5	1831.0	1463.8	1695.4
PAT (Rs. crore)	336.2	305.0	210.7	255.9
OPBDIT/OI (%)	34.3%	24.5%	22.2%	18.2%
RoCE (%)	23.1%	19.3%	22.8%	26.1%
Total Debt/TNW (times)	0.3	0.0	0.5	0.1
Total Debt/OPBDIT (times)	0.8	0.2	1.3	0.5
Interest coverage (times)	10.6	31.2	7.5	14.8

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 (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Current Rated Amount (Rs. Cr)	Amount Outstanding (Rs. Cr)	Date and rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					August 2019	June 2018	October 2017	September 2017	November 2016
1	Cash Credit	Long Term	144.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Term Loans	Long Term	290.0	-	[ICRA]AA- (Stable)	[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	68.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
6	Commercial Paper	Short Term	50.00	-	[ICRA]A1+ Withdrawn	[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	-	-	-	144.0	[ICRA]AA-(Stable)
NA	Term Loan*	-	-	-	290.0	[ICRA]AA-(Stable)
NA	Non fund based	-	-	-	68.0	[ICRA]A1+
NA	Commercial Paper				50.00	[ICRA]A1+ withdrawn

**It is only a sanctioned facility and is yet to be drawn down*
Source: Star Cement Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Star Cement Limited	100.00%	Full Consolidation
Star Cement Meghalaya Limited	100.00%	Full Consolidation
Meghalaya Power Limited	51.00%	Full Consolidation
Megha Technical and Engineers Pvt Ltd	100.00%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Maitri Vira
+91 33 7150 1103
maitri.vira@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:

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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
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