Shree Cement Limited

December 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,050.00 (Enhanced from 1,250.00)	CARE AAA; Stable	Reaffirmed
Short Term Bank Facilities	1,200.00	CARE A1+	Reaffirmed
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Non Convertible Debentures	700.00	CARE AAA; Stable	Reaffirmed
Commercial Paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings to the bank loan facilities, non-convertible debentures, commercial paper and Issuer rating of Shree Cement Limited (SCL).

The rating assessment continues to consider SCL's strong competitive position in grey cement manufacturing supported by installed capacities of 49.90 MTPA in India majorly spread across Northern and Eastern Regions of India. Its strong market position is amplified by the company's significant penetration in Northern, followed by Eastern and Central India regions and modest presence in Western and Southern India. Further, penetration in existing markets and diversification in newer region is expected with the company's current capital expenditure (capex) plan. The company has established a healthy brand recall of its cement products which is supported on ground by its distribution network leading to higher retail trade mix. The company is also focussing on premiumisation of its product profile. Further, the cost competitiveness is driven by the presence of captive limestone mines and significant captive power generation. This is further boosted by significant green power mix which is both low cost and environment friendly. Additionally, high proportion of blended cement reduces its fuel requirements. Though, the operating profitability was adversely impacted in line with the industry due to spike in power and fuel costs, the company continues to have sound operating profitability which is expected to improve over the medium term. Furthermore, the ratings also factor in SCL's robust financial profile which is characterized by its healthy capital structure and strong debt coverage indicators. These strengths are partially offset by cyclicality in the cement industry and volatility in input costs.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: NA

Negative factors

- Decline in the operating performance, resulting in net debt/PBILDT above 1x on a sustained basis
- Any significant reduction in the liquidity levels of the company either on account of significant debt funded capex or deterioration in the business risk profile

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) takes a consolidated view of the parent (SCL) and its subsidiaries owing to significant business, operational and financial linkages between the parent and the subsidiaries. The details of the subsidiaries and associates which have been consolidated as on March 31, 2023 are given in Annexure - 6.

Outlook: Stable

The rating outlook "Stable" indicates the expected sustenance of its strong market position in the cement business, strong operating efficient and robust financial risk profile. The company is expected to continue growing its scale of operations supported by incremental cement capacities at a healthy operating profitability margin. Despite expected incremental debt for its ongoing capacity expansion, the company is expected to maintain net cash position and strong solvency ratios.

Detailed description of the key rating drivers:

Key strengths

Strong competitive position supported further by diversified geographical profile: SCL is among the top 3 cement manufacturers in India with its 49.90 MTPA cement capacity as on September 30, 2023 underpinning its strong market position. SCL, already entrenched itself as a strong player in Northern India deriving about 44%-47% of its sales volume, has been gradually diversifying its geographical presence. It generates 23%-26 of its sales volume from Eastern region and Central region 17%-

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

18%. The company has 26.30 MTPA of cement capacities in Northern India and 17.60 MTPA of cement capacities in Eastern India (including 3 MTPA of new cement grinding unit commissioned recently in Purulia, West Bengal) followed by modest capacities of 3 MTPA of cement capacities in West and South India. The current capex plan wherein the company has targeted to reach 80 MTPA entails them diversifying further in Southern and Central region where it has limited cement capacity. In the short term, Nawalgarh (Rajasthan) integrated unit with 3.5 MTPA cement capacity is expected to commission in Q3FY24.
This strong competitive position is also reflected in its vast scale of operations, having sold 31.82 million tonnes (MT) of cement and clinker in FY23 and registering volumetric growth of 14.71% year on year (Y-o-Y). This coupled with modest growth in cement and clinker realization to Rs.4896 per tonne led to moderate growth of 19.58% Y-o-Y in net sales to Rs.17441 crore in FY23. With general elections coming in May 2024, there is expectation of huge push towards infrastructure and thus, the cement industry is expected to clock high single digit growth in FY24. Aided by this and ramp up of new cement capacities, the company is expected to grow its volume by 10%-12% in FY24 as evident in H1FY24 with standalone volume growth of 10% Y-o-Y.

Large retail trade mix driven by healthy brand recall and established distribution network: Despite being a commoditized business, SCL has been able to establish its brand over the years. The company has diversified brand portfolio consisting of Shree Jung Rodhak Cement, Roofon Cement, Bangur Cement, Bangur Power Cement, Rockstrong Cement and Rockstrong Premium Cement. SCL has a network of 999 sales promoters and 22,161 dealers and 13,608 sub-dealers which significantly supports the on-ground sales of SCL's products. Further, the company largely sells blended cement which is consumed by retail trade segment. Accordingly, the company's retail trade mix is 81% in FY23 in the overall volumes.
The company has been focussing on premiumisation of its product portfolio with Roofon and Bangur being its premium cement brands. The company has increased its premium product mix from 6.6% of trade mix in Q4FY22 to 7.5% in Q4FY23 and is targeting to increase to 15% by end of this fiscal year which may allow the company to increase its realization.

Sound operating efficiencies: The company's large scale of operations is supported by its internal operating efficiencies allowing it to control costs and have a wide market reach. The company has established captive thermal power plant (TPP) of 503 MW, WHRS of 211.50 MW and renewable energy (i.e. solar and wind energy) of 179.55 MW as on June 30, 2023. This makes the company self-sufficient for significant portion of its power requirements along with being cost effective. With 391.05 MW of captive green power (WHRS, solar and wind), the company has amongst the highest green power consumption mix in the Indian cement industry which is not only environment friendly but also low cost compared to conventional power. The company increased its green power consumption to 51.1% in FY23 from 48.3% in FY22. The company has captive limestone reserves to fully meet its requirements for the long term. Apart from this, the company has various split GUs which help it accessing wider market. Its multi-fuel kilns and production of higher blended cement of its total sales volumes i.e. around 75%, helps in limiting fuel costs for kiln. Additionally, the company is also increasing its usage of alternative fuels and raw materials usage in kiln which costs lower than Rs.1 per kilo calories. The thermal substitution rate was 3.50% in FY23 increasing from 2.41% in FY22 and the company is targeting to increase the same to 15% by end of current fiscal year.
These factors have helped the company maintain sound operating margins in the range of 24%-30% over the three fiscal years through FY22, though moderation has been observed in FY23 on account of significant cost inflation particularly in power & fuels costs. Pent-up demand post opening up of the global economy and subsequently Russian-Ukraine war, led to sharp rise in power & fuel costs since Q3FY22. Yet, despite the cost inflation, the company's operating margin in FY23 was around 16%. PBILDT per tonne was ₹1,178 in FY22 which has moderated to ₹827 per tonne in FY23. However, the company is expected to cross PBILDT per tonne of atleast Rs.1000 in FY24 largely driven by softening of power & fuel cost along with various initiatives being undertaken such as targeting increased AFR usage, adding more low-cost green power capacity and increasing railway sidings. The company has already shown significant improvement in profitability in H1FY24 which is expected to be followed by seasonally strong H2FY24.

Robust capital structure and debt coverage metrics; despite debt funded capex plan: Net worth of the company stood strong at ₹18,602 crore as on March 31, 2023 as against ₹17453 crore as on March 31, 2022. The company has also a deleveraged balance sheet which can be observed from its overall gearing remaining in the range of 0.18x-0.20x over the last three fiscal years ending March 31, 2023. This is supported by healthy cash flow from operations over the last few fiscals along with strong cash and cash equivalents (including investments), which limited reliance on debt, both for capex and working capital requirements. The company has a roadmap to increase its capacity to 80 MTPA and accordingly has accelerated its capex spending post the slowing it down due to COVID-19. The company has spent about Rs.3600 crores in FY23 and expected to undertake capex of about Rs.8000-9000 cr in FY24 and FY25 at a consolidated level. These are largely funded by internal accruals and the significant liquid investments built up over the last few years. Hence, the company's overall capital structure is expected to remain robust over the medium term.
With comfortable debt position and healthy profitability, the company's debt coverage metrics also remained strong. The interest coverage ratio was 10.83x (16.80x) in FY23 (FY22) and net debt to PBILDT is negative on account of net cash position of the company. These metrics are expected to remain strong over the medium term.

Key weaknesses

Cyclicality of the cement industry

The cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations.

Volatility in input costs: The company is exposed to commodity price risk arising out of fluctuation in prices of raw materials (gypsum, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for both the power generation to run its plants and as fuel for kilns. Since Q3FY22, there has been tremendous increase in the energy cost. Initially it was on account of pent-up demand after the world started opening up post multiple COVID-19 waves and vaccinations. However, the costs exacerbated with start of Russia-Ukraine war. The pet coke and coal prices now have significantly reduced from its FY23 peak, however, the same may remain volatile considering various global economic factors.

Liquidity: Superior

SCL's strong liquidity is supported by healthy cash & cash equivalents along with significant generation of gross cash accruals (GCA) and moderate bank limit utilization. The company had generated gross cash accrual of ₹3058 crore in FY23. The same is expected to grow to around Rs.3400-3600 crores in FY24 on account of expected improvement in turnover and profitability margins. The company has already achieved gross cash accruals of Rs.1771 crore in H1FY24. The company's repayment obligations in FY24 is around ₹1034 crore and Rs.541 crore in FY25 which can be serviced by its internal accruals. Further, the company has substantial liquid investments to meet its capex requirements along with new debt being raised. The company had free cash & cash equivalents of ₹228 crore as on Sept 30, 2023 and while investments were Rs.8052 cr. The company has significant cushion in its working capital limits for incremental working capital requirements if required and it has the capability to raise funds from the markets at competitive rates. SCL has robust capital structure which provides headroom for incremental debt if required. The company's management is expected to keep atleast Rs.5000 crore of liquidity in hand

Environment, social, and governance (ESG) risks

The cement sector has a significant impact on the environment owing to higher emissions, generation of waste and consumption of water. Cement manufacturing process is energy intensive and its high dependence on natural resources, such as limestone, coal as key raw materials are the ley reasons. Due to the nature of operations affecting local community and health hazards involved in cement manufacturing process, the sector also has a social impact.

SCL has continuously focused on mitigating its environmental and social risks. CARE Ratings Limited (CARE Ratings) believes SCL's commitment to ESG will support its strong credit profile.

Key ESG highlights of SCL:

- In FY23, the share of renewable energy in the overall energy consumption of the company was 51.1%, which is one of the best in the industry.
- Planned a capex towards setting up of solar power plants, which will further enhance the proportion of clean energy usage in total power consumption.
- Specific Net Scope 1 CO2 emission decreased from 530 kg/ton cementitious material in FY22 to 521 kg/ton during FY23 on account of multiple initiatives.
    b) Increased usage of alternate fuel from 9.84% in FY22 to 14.01% in FY23 to conserve natural resources.
    c) Use of alternative raw materials from 27.23% in FY22 to 27.96% in FY23.
    d) Avoided approximately 6.86 million tonnes of CO2 by producing blended cement in FY23.

- The governance structure is characterised by majority of the board members being independent directors, split in chairman and executive positions, dedicated investor grievance redressal mechanism and required disclosures.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

Incorporated in 1979, Shree Cement Limited (SCL) belongs to B.G.Bangur - H. M. Bangur faction of the Bangur family of Kolkata. B. G. Bangur, the promoter & Chairman Emeritus of SCL, is an eminent industrialist. His son, H. M. Bangur (son of B. G. Bangur), Chairman, is a qualified Chemical Engineer and was also a member of the Executive Committee of FICCI. Mr. Prashant Bangur (son of Mr. H. M. Bangur), Post Graduate in Management from Indian School Business (Hyderabad), is the Vice-Chairman of SCL. The company is engaged in the manufacturing of cement with an installed capacity of 49.90 million tonne per annum (mtpa) in India (53.90 mtpa on a consolidated level) as on September 30, 2023, with its facilities spread across Rajasthan, Chhattisgarh, Uttarakhand, Bihar, Jharkhand, Haryana, Uttar Pradesh, Karnataka, Odisha, Maharashtra, West Bengaland UAE. The company sells cement under the brand name of Roofon, Shree, Bangur power, Bangur Cement and Rockstrong. SCL is also engaged in the generation of power with an installed capacity of 894 MW in India spread across coal-based, WHRS, solar and wind energy sources as on June 30, 2023.

Brief Financials – Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)#
Total operating income	14898	17730	10166
PBILDT	3630	2847	2132
PAT	2337	1269	1019
Overall gearing (times)*	0.18	0.20	0.10
Interest coverage (times)	16.80	10.83	15.08

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
**Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits and Creditors on LC*
#Bifurcation of various lines items is not available for H1FY24, as only abridged financials are published. Hence, certain figures may not be like to like vis a vis FY22 and FY23 financials.

Brief Financials – Standalone (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)#
Total operating income	14195	16727	9871
PBILDT	3571	2842	2090
PAT	2550	1453	1072
Overall gearing (times)*	0.18	0.21	0.11
Interest coverage (times)	16.40	10.57	14.57

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
**Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits and Creditors on LC*
#Bifurcation of various lines items is not available for H1FY24, as only abridged financials are published. Hence, certain figures may not be like to like vis a vis FY22 and FY23 financials.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-365 days	500.00	CARE A1+
Debentures-Non Convertible Debentures	INE070A07061	26-09-2023	7.80	26-10-2030	700.00	CARE AAA; Stable
Fund-based - LT-Cash Credit		-	-	-	1900.00	CARE AAA; Stable
Fund-based - LT-Term Loan		-	-	31/03/2025	150.00	CARE AAA; Stable
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC		-	-	-	1200.00	CARE A1+

*Currently, outstanding commercial paper is nil

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	1200.00	CARE A1+	1)CARE A1+ (11-Aug-23)	1)CARE A1+ (29-Sep-22) 2)CARE A1+ (22-Sep-22)	1)CARE A1+ (24-Sep-21)	1)CARE A1+ (28-Sep-20)
2	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (11-Aug-23) 2)CARE A1+ (13-Jun-23)	1)CARE A1+ (12-Jan-23) 2)CARE A1+ (29-Sep-22) 3)CARE A1+ (22-Sep-22)	1)CARE A1+ (24-Sep-21)	1)CARE A1+ (28-Sep-20)

3	Fund-based - LT-Cash Credit	LT	1900.00	CARE AAA; Stable	1)CARE AAA; Stable (11-Aug-23)	1)CARE AAA; Stable (29-Sep-22) 2)CARE AAA; Stable (22-Sep-22)	1)CARE AAA; Stable (24-Sep-21)	1)CARE AAA; Stable (28-Sep-20)
4	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA; Stable	1)CARE AAA; Stable (11-Aug-23)	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (29-Sep-22) 3)CARE AAA (Is); Stable (22-Sep-22)	1)CARE AAA (Is); Stable (24-Sep-21)	1)CARE AAA (Is); Stable (15-Dec-20)
5	Fund-based - LT-Term Loan	LT	150.00	CARE AAA; Stable	1)CARE AAA; Stable (11-Aug-23)	1)CARE AAA; Stable (29-Sep-22)	-	-
6	Debentures-Non Convertible Debentures	LT	700.00	CARE AAA; Stable	1)CARE AAA; Stable (11-Aug-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure -6: List of subsidiaries which are consolidated

Subsidiaries	% stake held by SCL
Raipur Handling and Infrastructure Private Limited	100%
Shree Global FZE	100%
Shree Enterprises Management Ltd.	100%
Shree International Holding Ltd.	100%
Union Cement Company PJSC	98.25%
Union Cement Norcem Company Limited L.L.C.	60%
Shree Cement North Private Limited (w.e.f. 11.06.2022)	100%
Shree Cement East Private Limited (w.e.f. 11.06.2022)	100%
Shree Cement South Private Limited (w.e.f. 11.06.2022)	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.Sharma@careedge.in
Relationship Contact Lalit Sikaria Director **CARE Ratings Limited** Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in	Name: Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Name: Ravleen Sethi Associate Director **CARE Ratings Limited** Phone: +91 - 11- 45333251 E-mail: ravleen.sethi@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in