

Sagar Cements (R) Limited (Erstwhile BMM Cements Limited)

May 11, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹⁹	Rating Action
Long-term Bank Facilities-Term Loans@	81.60 (reduced from 86.70)	CARE BBB- (CE); Stable; ISSUER NOT COOPERATING* [Triple B Minus (Credit Enhancement); Outlook-Stable]	Issuer not cooperating; Based on best available information
Long-term Bank Facilities-Cash Credit^	26.00	Provisional CARE BBB- (CE); Stable; ISSUER NOT COOPERATING* [Provisional Triple B Minus (Credit Enhancement); Outlook-Stable]	Issuer not cooperating; Based on best Available information
Short-term Bank Facilities^	10.00	Provisional CARE A3 (CE); ISSUER NOT COOPERATING* [Provisional A three (Credit Enhancement)]	Issuer not cooperating; Based on best Available information
Total	117.60 (Rs. One hundred Seventeen crore and sixty lakhs only)		
Long Term Instruments	150.00 (Rs. One Fifty crore only)	CARE BBB- (CE); Stable; ISSUER NOT COOPERATING* [Triple B Minus (Credit Enhancement); Outlook-Stable]	Issuer not cooperating; Based on best Available information

Details of instruments/facilities in Annexure-1

@ Backed by unconditional and irrecoverable corporate guarantee provided by Sagar Cements Limited (rated 'CARE BBB-/CARE A3; ISSUER NOT COOPERATING' and subsequently withdrawn).

^ Proposed to be backed by unconditional and irrecoverable corporate guarantee to be provided by Sagar Cements Limited (rated 'CARE BBB-/CARE A3; ISSUER NOT COOPERATING and subsequently withdrawn').

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated December 24, 2018, placed the rating of Sagar Cements (R) Limited (SCRL) under the 'issuer non-cooperating' category as SCRL had failed to provide information for monitoring of the rating. SCRL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated April 21, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on December 24, 2018 the following were the rating strengths and weaknesses: (updated for the information available from Stock Exchange)

Key Rating Strengths

Satisfactory operational performance with growth in sales volume due to improved demand prospects for cement resulting in increased revenue and profits during FY19:

Total operating income (TOI) at standalone level also increased by 7% to Rs.368.25 crore in FY19 (as against Rs. 343.75 crore) primarily on account of favourable demand in the market. Satisfactory improvement in standalone operational performance

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

marked by 18% increase in the production from 7,04,531 MTs to 8,33,470 MTs. Power generated by the company during the year has also improved from 1,78,866 MWH in FY18 to 1,81,733 MWH in FY19. The company has reported loss of Rs.11.39 crore in FY19 as against a loss of Rs.21.47 crore in FY18. However, PAT of Rs.5.26 crore is reported during H1FY20 (as against loss of Rs.11.05 crore during H1FY19) primarily on account of significant saving in power and fuel cost.

Further, the consolidated income registered growth of 12.47% to Rs.1220.43 crore in FY19 (as against Rs.1085.02 crore in FY18) primarily on account of increase in sales dispatches during FY19. During 9MFY20, TOI stood at Rs.873.31 crore (as against Rs.853.70 crore in 9MFY19).

Experienced promoters and management team with long track record of operations:

SCL is promoted by Mr. S Veera Reddy Managing Director, who is a first generation entrepreneur with over four decades of experience in the Cement Industry. Sagar Cements Limited (SCL) has about three decades of track record and over the years.

Long-term mining agreement for lime stone:

Post receipt of mining lease in FY16, through SCRL's uninterrupted access to quality limestone reserves, SCL has advantage of adequate availability of raw materials.

Established sales force and distribution channel:

SCL sells its product through dealers/stockiest, consignment/C&F agents, direct parties, government and institutional customers.

Key Rating Weaknesses

Leveraged capital structure with weak debt coverage indicator:

The overall gearing at the standalone level continues to remain leveraged at 5.15x as on March 31, 2019 (As against 4.03x as on March 31, 2018) Debt coverage indicators viz. Interest coverage and TDGCA continues to remain weak during FY19. However SCL's capital structure at the consolidated level remained comfortable represented by overall gearing (consol.) level at 0.58x as on March 31, 2019.

Ongoing debt-funded capex:

SCL is implementing a coal based captive power unit of 18 MW and expansion of the grinding unit in Bayyavaram to 0.3 MT with capital cost of Rs.166.41 crore.

Analytical approach: CARE has based its rating on the assessment of the guarantor, Sagar Cements Limited, which has provided/proposed to an unconditional and irrevocable corporate guarantee for the bank facilities and instruments of SCRL.

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Cement Industry](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Policy on Assignment of Provisional Ratings](#)

About the Company-Sagar Cements (R) Limited

SCRL, incorporated in August 2007, is engaged in the manufacturing of cement. The company commenced commercial production in April 2012, at its 1.0 Million Ton Per Annum (MTPA) cement plant in the Anantapur district of Andhra Pradesh and commenced operations of its 25-MW captive power plant in July 2013. SCRL manufactures and markets Ordinary Portland Cement, Portland Blast Furnace Slag Cement and Portland Pozzalana Cement. SCRL was initially part of the BMM group, promoted by Mr Dinesh Kumar Singhi, which has interests in the iron & steel and mining sectors, apart from cement. During FY16, SCRL was acquired by SCL at an enterprise value of Rs.540.0 crore post which the company is part of the Sagar group. SCRL is selling cement under Sagar Brand for which the company is paying a royalty to SCL.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	343.75	368.25
PBILDT	31.29	50.63
PAT	-21.47	-11.39
Overall gearing (times)	4.03	5.15
Interest coverage (times)	0.76	1.18

A: Audited

About the Guarantor-Sagar Cements Limited

Sagar Cements Limited (SCL) was incorporated in January 15, 1981 and commenced operations from January 1985 with an installed capacity of 66,000 Tons Per Annum (TPA) of Cement and 66,000 TPA of Clinker capacity with its manufacturing facilities located in Nalgonda, Andhra Pradesh. SCL manufactures various varieties of cement like Ordinary Portland Cement (OPC) of 53 grade, 43 grade, Portland Pozzalona Cement (PPC) and Sulphate Resistant Cement (SRC). Over the years, SCL has increased the capacity and currently has an installed capacity of 4.3 million (mn) MTPA (including 1 mn MTPA post acquisition of Sagar Cements (R) Limited (erstwhile BMM Cements Limited) for cement and 3.62 mn MTPA for clinker. SCL belongs to Hyderabad based Sagar Group which is into diversified business segments such as, cement manufacturing, hydel power generation through Sagar Power Limited (9.95MW), manufacture of fabric and woven sack for cement industry through Panchavathi Polyfibers and also into consulting and information technology services through group companies RV Consulting and Sagarsoft (India) Limited.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,085.02	1,220.43
PBILDT	158.58	152.29
PAT	26.26	13.59
Overall gearing (times)	0.61	0.58
Interest coverage (times)	2.67	2.40

A: Audited

Status of non-cooperation with previous CRA: ICRA has suspended the long-term rating of ICRA D assigned to the bank facilities due to absence of sufficient information in July 2016.

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2027	81.60	CARE BBB- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Cash Credit	-	-	-	-	26.00	Provisional CARE BBB- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-BG/LC	-	-	-	-	10.00	Provisional CARE A3 (CE); ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Debentures-Non Convertible Debentures	INE433R07016	March 23, 2016	11.60%	May 28, 2025	150.00	CARE BBB- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*Issuer did not cooperate; Based on best available information