Press Release

Emami Cement Limited

D-U-N-S® Number: 65-048-8674

March 29, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** to the Rs. 30.00 crore bank facilities of EMAMI CEMENT LIMITED (ECL). The outlook is **'Stable'**.

ECL, incorporated in 2007 by Mr. Agrawal and Mr. Goenka, is a part of Kolkata based Emami Group. ECL is engaged in manufacturing of cement. ECL sells cement under the brand name 'Emami Double Bull'. ECL's cement plants are located in Risda (Chhattisgarh) with 2.50 million tonnes per annum capacity for cement and 3.20 million tonnes for Clinker. Further, ECL also has 40MW captive power plant which started operations in December, 2016 and currently, is utilised at full levels. ECL also has plant at Panagarh in West Bengal (grinding unit) with 2 million tonnes per annum capacity which started operations in November, 2017.

Further, ECL has also set up plant at Jajpur in Odisha (grinding unit) with 2 million tonnes per annum capacity. Trial run in this plant has started from December, 2018 and the commercial production is expected to commence from April, 2019. ECL has acquired 0.60 million tonnes per annum capacity from Eco Cement Limited in October, 2018 (fully operational plant) at Bhabua (Bihar). The company is planning to expand the capacity of this plant to 1.80 million tonnes.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profile of ECL and notched up the standalone rating by factoring in the strong financial support extended by Emami Group.

Key Rating Drivers

Strengths

- **Strong support from Emami Group**

ECL engaged in manufacturing of cement is a part of Emami Group which has presence in various businesses including FMCG, newsprint paper, writing instruments, edible oil and cultivation, biodiesel, hospitals, real estate, retail and cement, among others . ECL also shares the group name and is fully owned by the promoters and the group companies, thereby reinforcing the moral obligation to provide support.

ECL being a Group Company and having adequate technical and commercial expertise shall be in a position to leverage its strength to acquire established market position in cement industry. ECL's majority of the shares (52.44 percent as on 31 March, 2018) are majorly held by three holding companies of the group, namely, Suntrack Commerce Private Limited, Bhanu Vyapaar Private Limited and Diwakar Viniyog Private Limited; which also have majority of the shareholding in Emami Limited - the flagship company of the group. Further, Prabhakar Viniyog Private Limited (PVPL) has also extended its corporate guarantee for ECL imparting additional financial flexibility to ECL. Going forward, timely support from Emami Group will be critical to maintain the debt service commitments of ECL and also to undertake refinancing of such debt.

- **Healthy business profile**

ECL has an integrated manufacturing facility at Risda (Chhattisgarh) which has a clinker making facility, a captive lime stones mine adjacent to the factory and a captive power plant. The clinker capacity is sufficient for meeting requirement of the plants in Risda and Panagarh as well as of the upcoming unit in Odisha. The captive power plant will meet most of the power requirement of the Risda plant, while 30 percent of the total power generated from waste heat would further lower the power cost for the company. Further, the commencement of railway siding in Panagarh has also led to cost savings in the current fiscal.

ECL has successfully ramped up the capacity utilisation levels at its Risda and Panagarh plant, along with improvement in EBITDA levels. ECL's revenues have grown significantly to Rs.989.25 crore in FY2018 (PY: Rs.168.68 crore) on account of increase in cement realisation due to improved product demand. The operating profit improved at Rs.71.81 crore for FY2018 as against negative operating profit in FY2017 on account of high discounts offered to the dealers.

Further, ECL has registered revenues of Rs.1345.80 crore for 9MFY2019 (Provisional). The operating profit levels have improved to 10.97 percent for 9MFY2019 (Provisional). ECL's realisations are likely to improve further with higher sales in West Bengal and Bihar where ECL earns better realisations than those in Chhattisgarh.

Acuité believes that the healthy cement demand growth in eastern India, led by a demand push from the housing, infrastructure and commercial sectors will further strengthen the business profile of ECL.

Weaknesses

- **Leveraged capital structure albeit on a moderate net worth base**

ECL has leverage capital structure marked by moderate net worth base of Rs.861.08 crore as on 31 March, 2018 (PY: Rs.837.91 crore) which includes unsecured loans to the tune of Rs.101.55 crore from the promoters considered as quasi equity. Further, the tangible net worth stood at Rs.1063.47 crore as on 31 December, 2018 (Provisional). The promoters have infused quasi equity amounting to Rs.377.30 crore which is further expected to increase by March, 2019. The debt/equity ratio stood at 2.61 times as on 31 March, 2018 (PY: 2.12 times). The total debt of Rs.2246.76 crore outstanding as on 31 March, 2018 comprises Rs.2093.86 crore as secured term loan from banks and financial institution and Rs.152.90 crore as working capital borrowings from the bank.

The debt/equity is estimated to remain in the range of 3.20 times to 3.00 times on account of capital expenditure plan undertaken by the company for its Odisha and Bihar projects. The debt/EBITDA stood high at 30.15 times in FY2018 and is expected to improve in the medium term on account of improvement in EBITDA levels due to better realisation from the cement in FY2019. ECL plans to bring Initial Public Offer (IPO) in the near to medium term and the proceeds of the IPO will be used for reduction in the debt levels.

- **Susceptibility to risks relating to input costs and realisations, and cyclicality in cement industry**

ECL's profitability remains susceptible to volatility in prices of inputs, including raw material, power, fuel, and freight. Increase in pet coke prices over the past year has impacted profitability of several cement players. Realisations and profitability are also affected by demand, supply, offtake, and other regional factors. Capacity additions in the cement business take three to four years to become operational and stabilise; also, capacity expansions are lumpy, with most players setting up capacities simultaneously in anticipation of demand growth. This lumpiness in capacity addition and the fact that small capacities are not viable often lead to oversupply in the initial years after the capacities become operational. Thus, the domestic cement industry faces excess supply every three to four years.

Liquidity Position:

ECL's liquidity position is supported by infusion of funds in the form of unsecured loans by the promoters of Emami Group. The promoters have infused unsecured loans (quasi equity) amounting to Rs. 377.30 crore as on December, 2018 which is further expected to increase by March, 2019. The net cash accruals of ECL stood at Rs.12.11 crore in FY2018 as against the repayment obligations of Rs. 245.87 crore. Since the operational cash flows would be inadequate to service the debt obligations, it is expected that Emami group shall either infuse funds for timely servicing of the debt and/or arrange for timely refinancing.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term owing to its association with the Emami Group. The outlook may be revised to 'Positive' if the company scales up operations while improving operating profitability leading to better generation of net cash accruals. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and profitability or delays in receipt of support from promoters of the Emami Group.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	989.25	168.68	25.40
EBITDA	Rs. Cr.	71.18	-28.63	22.22
PAT	Rs. Cr.	-78.50	-37.77	7.52
EBITDA Margin	(%)	7.26	-16.97	87.47
PAT Margin	(%)	-7.93	-22.39	29.60
ROCE	(%)	-0.58	-2.50	1.74
Total Debt/Tangible Net Worth	Times	2.61	2.12	1.79
PBDIT/Interest	Times	0.53	-0.54	3.34
Total Debt/PBDIT	Times	30.15	-68.34	42.44
Gross Current Assets (Days)	Days	191	741	2019

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Criteria for Group and Parent Support - https://www.acuite.in/view-rating-criteria-47.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Namita Palve Analyst - Rating Operations Tel: 022-49294034 namita.palve@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.