

Press Release

Sunpower Cement Company Private Limited

June 04, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.12.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and short-term rating of '**ACUITE A4**' (**read as A four**) to the Rs.12.00 crore bank facilities of Sunpower Cement Company Private Limited (SCPL). The outlook is '**Stable**'.

Incorporated in 2005, Sunpower Cement Company Private Limited (SCPL) is a Kerala based company; it is engaged in manufacture of Portland Pozzolana Cement (PPC) and operates from Kanjikode, Palakkad, Kerala.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SCPL to arrive at this rating

Key Rating Drivers

Strengths

Extensive experience of promoters

SCPL was incorporated in 2005. The company was promoted by Mr. Shameer Dawood and Mrs. Razni Shameer who possess about two decades of experience in the cement industry. The promoters are involved in the functional areas of the business, and established longstanding relationships with suppliers and customers which helped in getting repeat orders from its clientele. The promoters have business interest in glass and oil industry among others; the promoters also operate PPC manufacturing unit on leased premises in the name of 'Capshare Impex Private Limited (rated 'ACUITE D') based out of Kerala. Modest scale of operations and volatile profitability lead to loan restructuring during December 2018. However, improving demand for cement and promoters' experience lead to recovery of business volumes and improvement in the profitability margins and Acuite believes that the same is expected to benefit in improving its business risk profile over the medium term.

Weaknesses

Below-average financial risk profile

SCPL's financial risk profile is marked by high gearing and TOL/TNW and moderate debt protection metrics. The net worth is modest at Rs.6.13 crore in FY2019 (Provisional) as against Rs.5.74 crore in FY2018 due to accretion to reserves. Gearing and TOL/TNW are high at 4.05 and 6.25 times as on March 31, 2019 (Provisional) against 4.37 and 7.50 times as on March, 2017. Its debt protection metrics are moderate reflected by interest coverage ratio and net cash accruals to total debt of 2.71 and 0.12 times in FY2019 (provisional). The company's loan facilities were restructured during December 2018 with sanction of funded interest term loan; on restructuring, the principal repayments are expected to start from June 2019 which gave turnaround in its operations partly. SCPL reported cash accruals of about Rs.2.88 crores in FY2019 (provisional). The cash accruals are estimated to remain around Rs.2.00-3.00 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 1.80-2.00 Crore leaving marginal flexibility. Acuité believes that with modest accruals to repayment obligations and working capital intensive operations, the financial risk profile is expected to be at similar levels over the medium term.

High working capital intensive operations

SCPL's operations are high working capital intensive as evident from Gross Current Assets (GCA) of 167 days as on March 31, 2019 (Provisional) as against 185 days as on March 31, 2018; this is primarily due to moderate inventory days (FY19(Provisional): 66 days; FY18: 114 days) and debtor days (FY19 (Provisional): 37 days; FY18: 30 days). Moderate working capital intensive operations lead to high utilisation of its working capital limits at about 99 percent over the past six months ended March 2019. Acuité believes that any significant increase in the working capital will have a bearing on the liquidity profile of the company.

Susceptibility to risks related to the commoditised nature of products and cyclical in the cement industry:

Capacity additions in the commoditised cement industry tend to be sporadic because of long gestation periods associated with setting up new facilities, and the large number of players adding capacities during the peak of a cycle. This has led to unfavourable price cycles for the sector in the past. Cyclical downturns in the industry result in slow sales, constraining the operating rate and ability to pass on any rise in input costs.

Liquidity Position:

Company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations and high bank limit utilisation. Its cash accruals were negative in FY2018. The cash accruals are estimated to remain around Rs.2.50-2.80 crore during 2019-21 while its repayment obligation are estimated at around Rs. 2.00 Crore. The SCPL's operations are highly working capital intensive with GCA of 167 days in FY2018; lead to high utilisation of its working capital limits at about 99 percent over the past six months ended April 2019. The current ratio of the SCPL stands above at 1.00 times historically through March 31, 2019 (provisional). Acuité believes that the liquidity of the SCPL continues to be at similar levels owing to modest scale of revenues and high working capital intensive operations.

Outlook: Stable

Acuité believes that SCPL will maintain a stable outlook in the medium term backed by its promoter's extensive experience. The outlook may be revised to Positive in case of significant improvement in its revenues, while sustaining the profitability and improving its capital structure. Conversely, the outlook may be revised to Negative if there is any stretch in its working capital cycle leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 Provisional	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	35.69	24.58	41.10
EBITDA	Rs. Cr.	4.26	1.62	3.21
PAT	Rs. Cr.	0.39	(2.58)	0.26
EBITDA Margin	(%)	11.94	6.58	7.80
PAT Margin	(%)	1.10	(10.51)	0.64
ROCE	(%)	6.46	(2.33)	7.90
Total Debt/Tangible Net Worth	Times	4.05	4.37	2.46
PBDIT/Interest	Times	2.71	1.03	1.94
Total Debt/PBDIT	Times	5.43	14.78	6.26
Gross Current Assets (Days)	Days	167	185	92

Any other information

Not Applicable

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>

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.96	ACUITE B- / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.55	ACUITE B- / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE A4
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE A4

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About Acuité Ratings & Research:

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