Press Release

Sunpower Cement Company Private Limited

D-U-N-S® Number: 86-917-1422

August 11, 2020

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

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

The rating reaffirmation is on account of declining profitability with PAT losses and cash losses in the past 2 years till FY2020 (Prov). The rating also factors the below-average financial risk profile with declining net worth, high gearing and weak debt protection metrics. The liquidity of the company is weak with insufficient net cash accruals to meet its repayment obligations; however, partly mitigated by promoters support in the form of an infusion of funds. The working capital operations of the company are intensive, as reflected by high bank limit utilization. Acuité believes that any change in the scale of operations with subsequent effect in the profitability and stretch in the working capital operations leading to stretch in liquidity will remain key rating sensitivity factors.

About the Company

Kerala-based, SCPL was incorporated in 2005. The company is engaged in manufacturing of Portland Pozzolana Cement (PPC). The company is promoted by Mr. Shameer Dawood and Mrs. Razni Shameer, who have over two decades of experience in the said line of business.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of SCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters**
  SCPL, promoted by Mr. Shameer Dawood and Mrs. Razni Shameer has over two decades of experience in the said line of business by virtue of their association with Capshare Impex Private Limited based out of Kerala. The installed capacity is 976 tonnes per day with ~40 percent utilization in FY2020 (Prov). The promoters are involved in functional areas of the business and have an interest in glass and oil industry among others. The extensive experience has enabled the company to forge healthy relationships with customers and suppliers, which in turn has helped in improved revenue growth, from Rs.36 Cr in FY2019 to Rs.46 Cr in FY2020 (Prov).
  Acuité believes that moderate demand and experienced management team is expected to support in improving its business risk profile over the medium term.

Weaknesses

- **Below-average financial risk profile**
  Financial risk profile of the company is below-average marked by high gearing, high total outside liabilities to total net worth (TOL/TNW) and low debt protection metrics. Gearing stood below average at 4.09 times as on 31 March, 2020 (Prov.) as against 3.33 times as on 31 March, 2019 due to erosion of net worth on account of accumulated losses from previous years. TOL/TNW stood below average at 7.33 times as on 31

March, 2020 (Prov.) as against 5.68 times as on 31 March, 2019. The net worth stood low at Rs.5.63 Cr. as on 31 March, 2020 (Prov.) as against Rs.7.12 Cr as on 31 March, 2019; due to accumulated losses from previous years. However, the net worth is expected to go up on account of stabilisation of operations by the generation of profits and continued support from promoters in the form of interest free unsecured loans to support the business. Of the total debt of Rs.23.06 Cr as on 31 March, 2020 (Prov.), long-term debt stood at Rs.14.37 Cr and short-term debt stood at Rs.8.69 Cr.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood low at 1.01 times and (0.01) times, respectively in FY2020 (Prov.). Acuité believes the financial risk profile is expected to remain at similar level on account of modest net worth and poor accruals against repayment obligations though partly supported by timely infusion of funds.

- **Working capital intensive operations**

  SCPL's working capital operations are intensive as evident from Gross Current Assets (GCA) of 141 days in FY2020 (Prov.) as against 128 days in FY2019. The debtor's days were recorded at 52 days in FY2020 (Prov.) as against 31 days in FY2019. The inventory days were recorded at 68 days in FY2020 (Prov.) as against 79 days in FY2019. The creditor's days were recorded at 99 days in FY2020 (Prov.) as against 144 days in FY2019. The working capital limits are fully utilized at 96%. Acuité believes that the working capital operations are expected to remain intensive with respect to high bank limit utilization and which will remain a key rating sensitivity factor.

- **Susceptibility to risks related to the commoditized nature of products and cyclicality in the cement industry**

  Capacity additions in the commoditized 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.

Rating Sensitivities

- Growth in the scale of operations while sustaining the revenue and margins
- Any stretch in the working capital operations leading to the deterioration of its financial risk profile and liquidity.

Material Covenants

None

Liquidity: Weak

Liquidity profile of SCPL is weakly reflected by negative cash accruals of Rs.0.16 Cr in FY2020 (Prov) against repayment obligations of Rs.1.45 Cr in the same year. The mismatch was, however supported by interest-free unsecured loans brought in by directors every year. Due to losses at the net level the cash accruals are expected to remain modest at Rs.0.36 Cr to Rs.0.99 Cr in the medium term against repayment obligations of Rs.1.45 Cr. The fund-based limits are utilized fully at 96% due to higher working capital-intensive operations. The unencumbered cash and bank balances stood at Rs.0.43 Cr as on 31st March, 2020 (Prov.) and the current ratio stood at 0.70 times for the same period. Acuité believes that liquidity profile is expected to remain weak on account of working capital-intensive operations and modest net cash accruals as against moderate repayment obligations.

Outlook: Stable

Acuité believes that SCPL will maintain 'Stable' outlook in the medium term on account of extensive experience of the promoters. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenues and profitability while maintaining its liquidity position and working capital cycle. Conversely, the outlook may be revised to 'Negative' if the revenue and profitability decline further or if there is any further stretch in its working capital cycle leading to a deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	46.22	36.28
PAT	Rs. Cr.	(2.46)	(2.48)
PAT Margin	(%)	(5.33)	(6.84)
Total Debt/Tangible Net Worth	Times	4.09	3.33
PBDIT/Interest	Times	1.01	1.06

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jun-2019	Cash Credit	Long Term	4.96	ACUITE B-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	2.55	ACUITE B-/ Stable (Assigned)
	Letter of Credit	Short Term	3.60	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.89	ACUITE A4 (Assigned)

***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	7.84	ACUITE B-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.06	ACUITE B-/ Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.21	ACUITE A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.89	ACUITE A4 (Reaffirmed)

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