

Press Release

Purbanchal Cement Limited

October 07, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.19.00 Cr.
Long Term Rating	ACUITE A-/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs.19.00 crores bank facilities of Purbanchal Cement Limited (PCL). The outlook is '**Stable**'.

The rating on PCL derives strength from the sound business risk profile of the company marked by experienced management, improved profitability levels, low dependence on external borrowings and favourable outlook of the domestic cement industry. Further, the rating also draws comfort from the comfortable financial risk profile and strong liquidity position of the company. These strengths are however, partly offset by the moderate working capital intensity in PCL's nature of operations and susceptibility to volatility in input prices.

About the company

Incorporated in 2003, Purbanchal Cement Limited (PCL) is a Sonarpur, Assam based company, engaged in the manufacturing of Clinker, Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC) with an installed capacity for grinding of 3.94 lakh TPA (effective capacity 3.63 lakh TPA) and clinker manufacturing capacity of 1.62 lakh TPA. The company markets its products in northeast under the brands 'Surya Gold' and 'Surya Concretex' cement with major sales concentration in Assam. The company is currently headed by Mr. Madhur Agarwalla. The company channelizes its sales through distributors and dealers across Assam, Meghalaya and other north eastern states.

Analytical Approach

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

Key Rating Drivers

Strengths

- Long and diversified experience of the management**

PCL is engaged in manufacture of cement since April 2008. The company was promoted in 2003 by Shri Trilok Chand Agarwal of Kolkata and Shri Prakash Gupta of Guwahati. Later, the company was taken over by Shri Madhur Agarwalla and Shri Subhash Chandra Agarwalla in July 2007, when the company was in project implementation stage. The plant became operational in April 2008. The promoters over the years have been successful in establishing the 'Surya Gold' and 'Surya Concretex' brand in the North Eastern cement market. The promoters also have a long business experience in several industries such as ferro alloy, steel, refractories and more. In 2007, the management ventured into cement business by acquiring majority stake in PCL. Acuité believes that the established track record of over a decade and multifaceted experience of the promoters will continue to support the business, going forward.

- Sound business risk profile supported by favourable outlook of the cement industry**

With thrust in the infrastructure sector buoyed by increasing public investments, cement industry has a favourable outlook in the country. Majority of the company's sales is concentrated in Assam in the hub of lime stone mines and large cement players, saving on transportation costs. The company has a healthy capacity utilization of 79 per cent for cement and 93 per cent for clinker, which is only used for captive consumption. Higher proportion of sales is derived from 'Surya Concretex' premium cement which is stronger than 'Surya Gold' cement. Since inception, PCL has established strong relationships with its regular customers, providing a consistent revenue visibility.

The EBITDA and PAT of the company grew by 146 per cent and 172 per cent respectively in FY2021. The margins improved on account of improvement in the average realization and significant reduction in power cost/MT. The improved profitability margins have translated into healthy RoCE levels of 17.45 per cent in FY2021 as against 6.64 per cent in FY2020. Cement prices have a bullish trend followed by increase in key raw material prices such as petroleum coke (pet coke) and coal. Given that the raw-material cost is the major cost driver and exposed to risk of volatility in input prices, the company's ability to sustain its margins will remain a key monitorable.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by moderate networth, negligible gearing and robust debt protection metrics. The tangible net worth of the company stood at Rs.75.09 Cr as on 31st March, 2021 as compared to Rs.66.20 Cr as on 31st March, 2020. Gearing stood at 0.06 times as on 31st March, 2021, same as the previous year. The debt of Rs.4.47 Cr comprises of working capital borrowing as on 31st March, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.52 times as on 31st March, 2021 as compared to 0.72 times in the previous year. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 18.00 times and Debt Service coverage ratio at 14.02 times as on 31st March, 2021. The Net Cash Accruals/Total Debt (NCA/TD) stood at 2.46 times as on 31st March, 2021 from 1.44 times as on 31st March, 2020. Acuité believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Moderately intensive working capital cycle**

The working capital cycle is moderately intensive marked by Gross Current Assets (GCA) of 106 days in FY2021 as compared to 119 days in FY2020. The debtor period stood comfortable at 25 days as on March 31, as the company offers a credit period of 30-40 days to its customers. Further, the inventory period stood at 63 days as on March 31, 2021 as compared to 56 days in FY20. The company has a policy to maintain inventory for about 1-2 months period. The company usually maintains limestone buffer stock of over 3 months. Also, the company procures around 40 per cent of its clinker requirement from the market in cash or against advance payment leading to high operating cycle. Acuité believes that the working capital management of the company will remain at similar levels over the medium term

- **Susceptibility to volatility in input cost; cyclical nature associated with the cement industry**

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 realizations. Moreover, profitability remains susceptible to volatility in input prices, including raw material, power, fuel and freight. Realisations and profitability are also affected by demand, supply, offtake and regional factors. PCIL remains exposed to frequent fluctuations in power cost in addition to the risks of volatile other input prices.

Rating Sensitivity

- Growth in scale of operations while sustaining operating profitability
- Elongation of working capital cycle

Material Covenants

None

Liquidity Position: Strong

The company's liquidity position is strong marked by healthy net cash accruals of Rs.10.97 Cr in FY2021 as against no long term debt repayment over the same period. The fund based limit utilization remained almost NIL over the eight months ended August, 2021. The current ratio stood comfortable at 2.64 times as on 31st March, 2021 as compared to 21.4 times as on 31st March, 2020. The cash and bank balances of the company stood at Rs.1.29 Cr in FY2021 as compared to Rs.8.20 Cr in FY2020. The company did not avail any Covid loan or loan moratorium. However, the company's working capital cycle is moderately intensive as reflected from Gross Current Assets (GCA) of 106 days in FY2021 as compared to 119 days in FY2020. Acuité believes that going forward the liquidity position of the company will improve further due to steady cash accruals.

Outlook: Stable

Acuite believes the company's outlook will remain stable over the medium term on account of its experienced management, sound business risk profile and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while sustaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues or stretch in working capital cycle leading to deterioration in the liquidity position of the company.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	201.91	190.14
PAT	Rs. Cr.	8.87	3.26
PAT Margin	(%)	4.39	1.71
Total Debt/Tangible Net Worth	Times	0.06	0.06
PBDIT/Interest	Times	18.00	7.57

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A-/Stable (Assigned)

* LC – Rs.1.00 Cr (Sub-limit of CC); BG – Rs.1.00 Cr (Sub-limit of CC)

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About Acuité Ratings & Research:

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