## Press Release

## Purbanchal Cement Limited

**December 13, 2022**

**Rating Reaffirmed**

| **Product** | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Bank Loan Ratings** | 19.00 | ACUITE A- \| Stable \| Reaffirmed | - |
| **Total Outstanding Quantum (Rs. Cr)** | 19.00 | - | - |
| **Total Withdrawn Quantum (Rs. Cr)** | 0.00 | - | - |

## Rating Rationale

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

**Rationale for the rating**

The rating on PCL derives strength from the sound business risk profile of the company marked by experienced management, moderate profitability levels, low dependence on external borrowings. 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, modest scale of operations, high geographical concentration risks 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 Concretec' 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 since April 2008. The promoters over the years have been successful in establishing the 'Surya Gold' and 'Surya Concretec' 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**

The demand-supply scenario in the North East region to remain favourable over the medium term, given the thrust on infrastructure development in the area and limited capacity addition in the region. Majority of the company's sales is concentrated in Assam in the hub of limestone mines and large cement players, saving on transportation costs. The company has a healthy capacity utilization of 97 per cent for cement and 89 per cent for clinker, which is entirely captively consumed. Higher proportion of sales is derived from 'Surya Concretec' 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 company has achieved revenues of around Rs. 196.67 Cr in 2022 as against Rs.201.91 Cr in FY2021. The operating margin of the company decreased to 6.49 per cent in FY2022 as compared to 7.09 per cent in the previous year on account of lower realisations and higher fuel prices . The PAT margins stood at 4.12 per cent in FY2022 as against 4.39 per cent in FY2021. The RoCE levels stood healthy at 15.23 per cent in FY2022 as against 17.45 per cent in FY2021.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, nil gearing and robust debt protection metrics. The tangible net worth of the company stood at Rs.82.45 Cr as on 31st March, 2022 as compared to Rs.75.09 Cr as on 31st March, 2021. Company had no outstanding debt as on 31st March, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.36 times as on 31st March, 2022 as compared to 0.52 times in the previous year. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 14.63 times and Debt Service coverage ratio at 11.67 times as on 31st March, 2022. 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 115 days in FY2022 as compared to 106 days in FY2021. The debtor period stood comfortable at 33 days as on March 31, 2022 as compared to 25 days as on 31st March 2021. Further, the inventory period stood at 73 days as on March 31, 2022 as compared to 63 days in FY21. The company offers credit period for around 40 days to its customers and has a policy to maintain inventory for about 1-2 months period. For Lime stone, the company usually maintains buffer stock of over 3 months. Also, the company procures around 40 per cent clinker (which is one of the major raw material) from the market for captive consumption, 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; cyclicality 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 Sensitivities

- 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.10.08 Cr in FY2022 as against no long term debt repayment over the same period. The fund based limit utilization remained almost NIL over the last seven months ended November, 2022. The current ratio stood comfortable at 3.04 times as on 31st March, 2022 as compared to 2.64 times as on 31st March, 2021. The cash and bank balances of the company stood at Rs.0.85 Cr in FY2022 as compared to Rs.1.29 Cr in FY2021. However, the company's working capital cycle is moderately intensive as reflected from Gross Current Assets (GCA) of 115 days in FY2022 as compared to 106 days in FY2021. Acuité believes that going forward the liquidity position of the company will improve due to steady cash accruals.

## Outlook: Stable

Acuité 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.

## Other Factors affecting Rating

None

## Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 196.67 | 201.91 |
| PAT | Rs. Cr. | 8.09 | 8.87 |
| PAT Margin | (%) | 4.12 | 4.39 |
| Total Debt/Tangible Net Worth | Times | 0.00 | 0.06 |
| PBDIT/Interest | Times | 14.63 | 18.00 |

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

None

## Any other information

None

## Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Entities In Manufacturing Sector:- https://www.acuite.in/view-rating-criteria-59.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

## Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**

## Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|---|---|---|---|---|
| 07 Oct 2021 | Cash Credit | Long Term | 19.00 | ACUITE A- \| Stable (Assigned) |

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---|---|---|---|---|---|---|---|---|
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 19.00 | ACUITE A- \| Stable \| Reaffirmed |

## Contacts

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**About Acuité Ratings & Research**

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.