

**CARE/HRO/RR/2016-17/1181**

**Mr. K Prasad**  
**Chief Financial Officer,**  
**BMM Cements Limited,**  
Plot No: 111, Road No: 10,  
Jubilee Hills,  
Hyderabad - 500033.

October 7, 2016

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

Please refer to our letter dated September 30, 2016 on the above subject.

1. The rationale for the rating is attached as an Annexure - I.
2. A write-up (brief rationale) on the above ratings is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - II**.
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 8, 2016 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,  
Yours faithfully,



**[Vidhyasagar L]**  
**Assistant General Manager**

Encl: As above

**Annexure - I**  
**Rating Rationale**  
**BMM Cements Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Instruments- Non Convertible Debentures@	150.00	<b>CARE BBB(SO)</b> <b>(Triple B (Structured Obligation))</b>	Revised from CARE BBB-(SO) (Triple B Minus (Structured Obligation))
Long-term Bank Facilities- Term loans@	86.70 (reduced from 113)	<b>CARE BBB(SO)</b> <b>(Triple B (Structured Obligation))</b>	Revised from Provisional CARE BBB-(SO) (Provisional Triple B Minus (Structured Obligation)) and final rating assigned
Long-term Bank Facilities- Cash Credit^	26.00 (reduced from 36)	<b>Provisional CARE BBB(SO)</b> <b>(Provisional Triple B (Structured Obligation))</b>	Revised from Provisional CARE BBB-(SO) (Provisional Triple B Minus(Structured Obligation))
Short term Bank Facilities- BG/LC^	10.00	<b>Provisional CARE A3+(SO)</b> <b>(Provisional A Three Plus(Structured Obligation))</b>	Assigned
<b>Total Facilities</b>	<b>262.70</b> <b>(Rupees Two Hundred Sixty Two crore and Seventy lakh only)</b>		

@ Backed by unconditional and irrecoverable corporate guarantee provided by Sagar Cements Limited (rated 'CARE BBB/CARE A3+').

^ Proposed to be backed by unconditional and irrecoverable corporate guarantee to be provided by Sagar Cements Limited (rated 'CARE BBB/CARE A3+').

**Rating Rationale**

The above ratings assigned to the long-term instruments/bank facilities of BMM Cements Limited (BMM) are based on credit enhancement/proposed credit enhancement in the form of

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications



unconditional and irrecoverable Corporate Guarantee (CG) from Sagar Cements Limited (SCL, rated 'CARE BBB/CARE A3+' for the bank facilities of BMM.

CARE confirms the final rating assigned to the term loans of BMM following execution of unconditional and irrecoverable Corporate Guarantee (CG) by SCL. Furthermore, the provisional rating assigned to the long-term bank facilities-Cash Credit facility is due to pending execution of CG documents.

For SCL's rating, CARE in its analysis has taken a consolidated view of SCL and its wholly-owned subsidiary BMM.

The revision in the ratings of SCL factors in the satisfactory financial and operational performance of SCL (Consolidated) during FY16 (refers to the period April 01 to March 31) with comfortable capital structure post acquisition of BMM, increase in the total operating income and improvement in PBILDT margin of SCL (standalone) and improved operational performance of BMM post acquisition during FY16 resulting in significant increase in income and PBILDT, albeit losses. The ratings also factors in BMM obtaining mining lease from Govt. of Andhra Pradesh for a period of 20 years thus ensuring access to limestone reserves and recent commencement of commercial operations of the railway siding project of SCL thus optimizing freight costs.

The rating continues to factor in the experienced promoters and management team, long track record of operations, SCL's long-term mining agreement for lime stone, established sales force and distribution channel. The ratings are however constrained by losses (consolidated) incurred during Q1FY17 on account of higher interest costs and ongoing debt funded capex and proposed debt-funded acquisition of the grinding unit. On the consolidated level, ability of the company to improve the scale of operations, sustain profitability margins and to rationalize debt are the key rating sensitivities.

## Background

BMM, incorporated in August 2007, is engaged in the manufacturing of cement. The company commenced commercial production in April 2012, at its 1.0 Million Ton Per Annum (MTPA) cement plant in the Anantapur district of Andhra Pradesh and commenced operations of its 25-MW captive power plant in July 2013. BMM manufactures and markets Ordinary Portland

Cement, Portland Blast Furnace Slag Cement and Portland Pozzalana Cement. The company was allocated lime stone mine near Gudipadu Village, Andhra Pradesh, which has an estimated surface deposits of 155 million tons and depends on imported coal for power generation.

BMM was initially part of the BMM group, promoted by Mr Dinesh Kumar Singhi, which has interests in the iron & steel and mining sectors, apart from cement. During FY16, BMM was acquired by SCL at an enterprise value of Rs.540.0 crore post which the company is part of the Sagar group. BMM is selling cement under Sagar Brand for which the company is paying a royalty to SCL.

Currently, BMM has Power Purchase Agreement with Telangana State Power Coordination Committee for sale of 6.67 mw at 4.65/kwh, while 10 mw will be provided to SCL for captive consumption.

#### **About the Guarantor**

SCL incorporated on January 15, 1981, and started operations from January 1985 with an installed capacity of 66,000 Tons Per Annum (TPA) of Cement and 66,000 TPA of clinker capacity. The manufacturing facilities are located in Nalgonda, Andhra Pradesh. SCL manufactures various varieties of cement like Ordinary Portland Cement (OPC) of 53 grade, 43 grade, Portland Pozzalona Cement (PPC) and Sulphate Resistant Cement (SRC). Over the years, SCL has increased its capacity and currently on a consolidated level the company has 4 Million Metric Tons Per Annum (MMTPA) of cement manufacturing capacity and 3.25 MMTPA of clinker capacity.

In FY11, SCL invested Rs.86 crore in Vicat Sagar Cement Private Limited (VSCL), a Joint Venture (JV) between SCL (47% holding) and remaining with Vicat S.A (France), Flagship Company of Vicat Group of France. During FY15, SCL exited from the JV for a total consideration of Rs.435 crore and used the proceeds to fund the acquisition of BMM which has 1 MTPA cement plant with captive power plant of 25 MW with its manufacturing unit located in Ananthapur, Andhra Pradesh, for a total enterprise value of Rs.540 crore. The acquisition of BMM was completed in August 2015 as against envisaged completion by April 01, 2015.

Please refer our website [www.careratings.com](http://www.careratings.com) for the detailed rating rationale of SCL.



## Financial Performance (BMM Standalone)

(Rs. Cr)

For the period ended / as on March 31,	2014 (12m, A)	2015 (12m, A)	2016 (12m, A)
<b><u>Working Results</u></b>			
Net Sales	149.12	93.87	214.61
Total Operating income	149.52	102.17	217.24
PBILDT	-9.82	-11.90	36.53
Interest	37.19	35.74	54.30
Depreciation	48.17	17.27	17.35
PBT	-95.07	6.77	-24.10
PAT (after deferred tax)	-65.70	-25.24	-26.17
Gross Cash Accruals	-46.90	24.04	-6.75
<b><u>Financial Position</u></b>			
Equity Capital	102.06	103.81	103.81
Net worth	50.27	28.85	2.76
Total capital employed	385.31	435.27	395.98
<b><u>Key Ratios</u></b>			
<i>Profitability</i>			
PBILDT/Total Op. income (%)	-6.57	-11.64	16.81
PAT (after deferred tax)/ Total income (%)	-43.94	-24.70	12.04
ROCE (%)	-1.50	6.99	7.26
<i>Solvency</i>			
Long-term Debt Equity ratio (times)	7.34	14.34	143.36
Overall Gearing (times)	7.75	14.87	151.68
PBILDT/Interest (times)	NM	NM	0.67
PBIT/Interest (times)	NM	NM	0.35
Term Debt/GCA (times)	NM	NM	NM
Total Debt/GCA (times)	NM	NM	NM
<i>Liquidity</i>			
Current ratio (times)	0.25	0.20	0.43
Quick ratio (times)	0.13	0.17	0.29
<i>Turnover</i>			
Average collection period (days)	25	41	35
Average Inventory (days)	50	34	35
Average Creditor (days)	46	64	66
Operating cycle (days)	29	12	4

A – Audited; NM-not meaningful;

### CREDIT ANALYSIS & RESEARCH LTD.

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Tel : 040 69000500 - 522 | Fax : 040 40020131 | E-mail : care@careratings.com | www.careratings.com

CIN L67190MH1993PLC071691

## Details of Rated Facilities

### 1. Long-term facilities

#### 1.A. Long-term Instrument-Non Convertible Debenture

(Rs. crore)

<b>Instrument</b>	Non-Convertible Debentures
<b>Issue Amount</b>	Rs.150 crore
<b>Subscriber</b>	International Finance Corporation

#### 1.B Secured Rupee Term Loans

<b>Banker</b>	<b>Type of facility</b>	<b>Amount (Rs. Crore)</b>	<b>Remarks</b>
State Bank of Hyderabad	Term Loan	18	Outstanding as on August 31,2016
State Bank of Hyderabad	Term Loan	13.60	
Yes Bank	Term Loan	50	
Corporation Bank	Term Loan	5.10	
<b>Total LT</b>		<b>86.70</b>	

#### 1.C Fund-based Cash Credit

<b>Sr. No.</b>	<b>Name of Bank</b>	<b>Nature of Facility</b>	<b>Amount (Rs. Crore)</b>
1	State Bank of Hyderabad	Cash Credit	16
2.	Yes Bank	Cash Credit	10
	<b>TOTAL</b>		<b>26</b>

**Total Long-term facilities (1.A+1.B+1.C) Rs.112.70 crore**

#### **Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure – II  
Brief Rationale**

**CARE revises the rating assigned to the Non-Convertible Debentures  
and Bank Facilities of BMM Cements Limited**

**Ratings**

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**Rating Rationale**

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cement plant in the Anantapur district of Andhra Pradesh and commenced operations of its 25-MW captive power plant in July 2013. BMM manufactures and markets Ordinary Portland Cement, Portland Blast Furnace Slag Cement and Portland Pozzalana Cement. The company was allocated lime stone mine near Gudipadu Village, Andhra Pradesh, which has an estimated surface deposits of 155 million tons and depends on imported coal for power generation.

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Currently, BMM has Power Purchase Agreement with Telangana State Power Coordination Committee for sale of 6.67 mw at 4.65/kwh, while 10 mw will be provided to SCL for captive consumption.

In FY16 (refers to the period April 1 to March 31), BMM reported net loss of Rs.26.17 crore (net loss of Rs.25.24 crore in FY15) on total operating income of Rs.217.24 crore (Rs.102.17 crore in FY15). During Q1FY17, BMM reported loss of Rs.4.43 crore on a total operating income of Rs.61.93 crore.

#### **About the Guarantor**

SCL incorporated on January 15, 1981, and started operations from January 1985 with an installed capacity of 66,000 tons per annum (TPA) of cement and 66,000 TPA of clinker capacity. The manufacturing facilities are located in Nalgonda, Andhra Pradesh. SCL manufactures various varieties of cement like Ordinary Portland Cement (OPC) of 53 grades, 43 grades, Portland Pozzalona Cement (PPC) and Sulphate Resistant Cement (SRC). Over the years, SCL has increased its capacity and currently on a consolidated level the company has 4 Million Metric Tons Per Annum (MMTPA) of cement manufacturing capacity and 3.25 MMTPA of clinker capacity.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.