Keerthi Industries Limited

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**10.50 (Rs. Ten Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Keerthi Industries Limited (KIL) is on account of significant improvement in total operating income (TOI), profitability and capital structure during FY21 (refers to the period from April 1 to March 31). The ratings further derive strength from experienced promoters and qualified management team, established track record of operations, integrated nature of operations with presence of captive power plant & limestone mines, comfortable financial risk profile and favourable industry outlook. The ratings are however, constrained by relatively moderate size of the company, regional concentration risk with majority of sales coming from Andhra Pradesh and Telangana markets, exposure to volatility in input costs especially coal and its presence in a competitive and cyclical cement industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in TOI above Rs.300 crore while maintaining PBILDT margin at 18%
- PBILDT/ton above Rs.950 on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Overall gearing deteriorating beyond 1x, in future
- Any notable decline in operating income or profitability by more than 30% y-o-going forward.
- Un-envisaged increase in term debt or more than 80% utilisation of WC lines

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational and financial performance in FY21

The operational performance of the cement division has improved significantly during FY21 mainly due to higher sales realization. The total operating income of the company increased by 34.57% from Rs.173.49 crore in FY20 to Rs.233.86 crore in FY21 on account of increase in capacity utilization from 76.71% in FY20 to 85.96% in FY21 coupled with increase in sales volume from 4,55,428 MT in FY20 to 5,13,790 MT in FY21. Revenue from KIL's electronic division also improved by 12.59% from Rs.9.02 Cr in FY20 to Rs.10.46 Cr in FY21. Furthermore, improvement in cement realisation along with decline in selling expenses (as a percentage of revenue) led to improvement in the operating margins. The PBILDT/ton also improved from Rs.205.98 in FY20 to Rs.932.28 in FY21. Furthermore, during H1FY22 KIL booked a revenue of Rs 127 crore as against Rs 105 crore in H1FY21.

Experienced and resourceful management with established track record in the industry

KIL is currently headed by Mr. J S Rao and Mrs. J Triveni, each with over two decades of experience in the cement industry. KIL initially started its operations with a cement manufacturing plant with total installed capacity of 297,000 MTPA which over the years was expanded to 594,000 MTPA. The management in due course of time has also diversified into power generation, manufacturing of electronic goods and sugar. Mrs. Jasti Triveni is a graduate in commerce with vast experience of over three decades in the cement Industry. During her tenure with KIL, the operations of the company had witnessed a turnaround from being a sick company to a profit-making company. Mr. J. Sivaram Prasad is a Chartered Accountant with diverse experience across the power, sugar and cement Industry for over 30 years. He is also one of the Promoters of Kakatiya Cement Sugar & Industries Ltd. The Promoters' industry experience and established relationships with clients has augured well for the company in terms of procuring contracts from a reputed clientele. The promoters of the company support the company by regularly infusing funds as and when required.

Satisfactory capital structure and debt coverage indicators

The capital structure of the company marked by overall gearing improved to 0.40x as on March 31, 2021 as against 1.02x as on March 31, 2020 on account of schedule repayment of term loans and lower utilization of the working capital limits. The interest coverage ratio improved from 1.63x in FY20 to 9.47x in FY21 on account improvement in PBIDLT levels along with lower interest expense.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable operating cycle and low utilization of working capital facilities
The operating cycle of the company is comfortable at 34 days in FY21 (23 days in FY20) with inventory days of 48 days (44 days in FY20). The company normally has around a month of stock of coal. The company provides credit period of around 7 days to its customers while enjoys 28 days credit from its suppliers thereby resulting in comfortable working capital cycle. Accordingly, the average working capital utilization was remained low at 8% in the last twelve months ending November 30, 2021.

Liquidity: Adequate
The adequate liquidity position of the company is marked by GCA of Rs.32.50 crore as against negligible repayment obligations. The company had cash and bank balances of Rs.9.50 crore and positive cash flows from operation amounting to Rs 41 crore as on March 31, 2021. Company has sufficient gearing headroom to raise additional debt, if needed. Furthermore, the unutilised bank lines provide cushion to liquidity.

Key Rating Weaknesses
Moderate-sized player in the Cement Industry subject to geographic concentration risk
KIL generates a stable stream of revenue from a relatively small scale of operations with an installed cement capacity of 5.94 lakh TPA and clinker capacity of 5.28 lakh TPA. The company lacks economies of scale and operational efficiencies enjoyed by larger established competitors present in the southern region. Moreover, the company is subject to geographic concentration risk since it predominantly markets its products in the southern states of Andhra Pradesh and Telangana.

Vulnerability to volatility in input costs
The major cost drivers for KIL are power/coal, freight, marketing costs, and raw materials (limestone, fly ash, gypsum and laterite) which accounted for nearly 85% of the total cost of sales during FY21. Limestone is the primary raw material for production of cement for which KIL has a mining lease. Coal accounts for a majority of KIL's power and fuel needs, which is procured domestically as well as imported from South Africa. About 70% of the total coal requirements are met through imports while the rest is purchased from The Singareni Collieries Company Limited (SCCL). The prices of pet coke have increased from Rs.5,697/MT in June-20 to Rs.10,662/MT during Mar-21, and further soared high with average price of Rs.12,802/MT in September-21 which is 62% higher y-o-y. Coal prices remain highly volatile due to uncertainty in availability which impacts margins of the company.

Intense competition and derived demand from the real estate sector
The company belongs to a highly fragmented, cyclical and competitive industry with the presence of many medium and large established players, thereby limiting the pricing power of small players like KIL which are exposed to competition induced pressures on profitability. Furthermore, the cement industry is primarily dependent upon the demand of real estate and construction sector, which has remained subdued.

Cyclicity of the cement industry & Industry outlook
Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. Due to this cyclicality, the company remains exposed to risks associated with the same. During FY20, weakness in housing demand, prolonged rains in many parts of the country and decline in demand from the infrastructure segment due to lack of funding and halting/ temporary stoppage of state projects following change in government post state elections had a negative bearing on the production of cement in the domestic markets. Further, with the outbreak of the Covid-19 pandemic in the Indian sub-continent which forced the government to announce a nation-wide lockdown also affected the domestic cement production during FY20 and FY21. The performance of cement companies is likely to remain stable despite the challenges of Covid pandemic. For FY22, the domestic cement production is expected to grow by around 14%-15% y-o-y after two consecutive years of de-growth. Going forward, although the demand for the cement industry is supported by government's thrust and spending towards 3 CARE Ratings Ltd. Press Release infrastructure creation and development, pent-up urban demand and continuing rural demand; the severity of upcoming wave of covid-III shall have a bearing on the timelines for demand revival of the cement industry. For FY22, although the profitability for cement players is expected to moderate during FY22 owing to increasing input costs especially for pet coke, diesel, coal and packing materials, etc, the impact of the same on cash accruals is envisaged to be less, backed by higher volumes and stable prices. In terms of debt, most of the cement companies are envisaged to continue their focus on strengthening their balance sheet during FY22. Furthermore, liquidity for the players is likely to remain strong or adequate for FY22 supported by high cash balances, un-utilized or low utilisation of working capital funding lines and healthy cash flows.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company
Keerthi Industries Limited (KIL) was initially incorporated as Suvarna Cements Limited by Late Mr. J S Krishna Murthy in May, 1982. In the year 2000, Mrs. J. Triveni (Executive Chairperson) and Mr. J. S. Rao (Managing Director) took over the company. KIL is engaged in manufacturing of specialized cement of 43 & 53 grades i.e. Ordinary Portland Cement (OPC) and Pozzolona Portland Cement (PPC). The manufacturing facility of cement is located at Nalgonda district of Telangana with an installed capacity of 5,94,000 Metric Tonnes Per Annum (MTPA). KIL sells cement under the brand name 'Suvarna Cements'. KIL procures 70% of its coal requirement from Singareni Collieries. The company sells to the customers located in Andhra Pradesh and Telangana.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	173.49	233.86	127.96
PBILDT	9.88	50.16	24.17
PAT	-0.32	19.26	12.79
Overall gearing (times)	1.02	0.40	NA
Interest coverage (times)	1.63	9.47	15.20

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE BBB-; Stable
Non-fund-based - LT-Bank Guarantees		-	-	-	3.50	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable (24-Dec-18)
2	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable (24-Dec-18)
3	Non-fund-based - LT-Bank Guarantees	LT	3.50	CARE BBB-; Stable	-	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable (24-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Nivedita Anirudh Ghayal
Contact no.: +91-40-40102030
Email ID: nivedita.ghayal@careedge.in

Relationship Contact
Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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