Keerthi Industries Limited

February 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.10	CARE BBB-; Negative	Assigned
Long Term Bank Facilities	20.00 (Enhanced from 10.50)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities are in Annexure 1.

Rationale and key rating drivers

The reaffirmation in the ratings of the bank facilities of Keerthi Industries Limited (KIL) is on account of experienced promoters and qualified management team, established track record of operations, integrated nature of operations with the presence of limestone mines, satisfactory operational performance leading to stable revenue generation in FY22 (FY refers to period April 01 to March 31), satisfactory capital structure and debt coverage indicators and comfortable operating cycle and low utilisation of working capital facilities. The ratings are however, constrained by the relatively moderate size of the company, regional concentration risk with the majority of sales coming from Andhra Pradesh and Telangana markets, the decline in profitability level and margins in FY22, volatility associated with input and finished good prices and its presence in a competitive and cyclical cement industry.

The ratings also factor in the moderation in financial and operational performance in H1FY23 and the increase in debt levels to fund the capex undertaken in the current fiscal.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- × Overall gearing deteriorating beyond 1x, in future
- × Any notable decline in operating income or profitability by more than 30% y-o-y, going forward

Analytical approach: Standalone

Outlook: Negative

The revision in the outlook from "Stable" to "Negative" is due to moderation in financial and operational performance in H1FY23. The continued pressure of high input prices is likely to lead to weak profitability in FY23. This may lead to a deterioration in the liquidity and debt coverage indicators of the company resulting in increased dependence on working capital facilities. The outlook may be revised to stable if KIL demonstrates an improvement in its performance thereby resulting in an improvement in the liquidity profile.

Key strengths

Experienced promoters and qualified management team with an established track record of operations

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 a 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 of commerce with vast experience of over three decades in the cement Industry. During her tenure with KIL, the operations of the company 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 Industries 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 have 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.

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

However, for H1FY23, KIL reported a total income of Rs.107 crore with a PBILDT margin of 3.46% as against income of Rs.126 crore and a PBILDT margin of 17.88% in H1FY22. The deterioration of profit margin is mainly on account of increased power and fuel prices on account of a significant increase in the prices of coal and pet coke.

Integrated nature of operations with the presence of limestone mines
The major cost drivers for KIL are power, freight, marketing costs, and raw materials (limestone, fly ash, gypsum and laterite) which accounted for nearly 86% of the total cost of sales during FY22. Limestone is the major raw material for the production of cement for which KIL has a mining lease. KIL was allocated two mines in Nalgonda, Andhra Pradesh with a total mineable area of 271 acres. It is estimated that the 271 acres of the leased area have 34.50 million tonnes of limestone reserves.

Satisfactory operational performance leading to stable revenue generation in FY22
The operational performance of the cement division has improved in FY22 as witnessed by an increase in capacity utilization to 87.51% as against 85.96% in FY21. Revenue derived from the electronic division also improved by 73.68% to Rs.18.16 Cr in FY22 from Rs.10.46 Cr in FY21. Thus, resulting in revenue remaining stable at Rs.250 crore which marginally improved by ~8% to Rs.232 crore in FY21. The revenue is stable owing to persistent demand from the infrastructure segment in FY22. However, in H1FY23, KIL reported a total income of Rs.107 crore with a PBILDT margin of 3.46% as against income of Rs.126 crore and a PBILDT margin of 17.88% in H1FY22. The deterioration of profit margin is mainly on account of increased power and fuel prices on account of a significant increase in the prices of coal and pet coke.

Satisfactory capital structure and debt coverage indicators
The capital structure of the company marked by overall gearing improved to 0.35x as on March 31, 2022, as against 0.40x as on March 31, 2021, on account of the scheduled repayment of term loans and lower utilization of the working capital facility. The interest coverage ratio marginally improved from 9.17x in FY21 to 9.34x in FY22 on account of lower interest outgo due to a decrease in debt levels. KIL in H1FY23 availed a term loan of Rs.28.55 crore and a GECL loan of Rs.1.55 crore. The term loan is towards the modernization of the existing manufacturing plant and the GECL loan is utilised for working capital purposes. Other debt coverage indicators: interest coverage ratio improved marginally to 9.34x and total debt to GCA remained satisfactory at 1.26x as of March 31, 2022.

Comfortable operating cycle and low utilisation of working capital facilities
The operating cycle of the company is comfortable at 31 days in FY22 (21 days in FY21) with inventory days of 41 days (35 days in FY21) for maintaining stocks of raw materials and coal. The company provided a credit period of around 7 days to its customers while obtaining 18 days of credit from its suppliers (21 days in FY21). With a comfortable collection period, the average working capital utilization remained low at 53.47% for the last 12 months ending October 31, 2022.

Key weaknesses

Moderation in profitability levels and margins
The high cost of coal which is one of the major inputs and the increase in freight costs resulted in a decline in profitability during FY22. The significant increase in the prices of coal and pet coke was reflected in the power and fuel expenses. Due to the heightened power and fuel prices, the PBILDT margin fell to 12.48% from 20.91% in FY21. Similarly, the PAT margin also deteriorated to 6.26% in FY22 from 8.29%. GCA stood at Rs. 24.05 crores down from Rs.28.61 crore in FY21.

Medium-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 a clinker capacity of 5.28 lakh TPA. The company lacks economies of scale and operational efficiencies that are enjoyed by larger established players present in the southern region. Moreover, the company is subject to geographic concentration risk since it predominantly markets its products only in the southern states of Andhra Pradesh and Telangana.

Volatility associated with input and finished good prices
Limestone is the primary raw material for manufacturing cement. Further, the industry being high power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet coke and crude oil. In H2FY22 the prices of coal have remained volatile with prices fluctuating widely between USD 250/t to USD 150/t compared to H1FY22 where the prices largely remained below USD 150/t. The surge in crude oil prices has raised freight costs significantly, resulting in diesel prices doubling up from the price point at the beginning of the year. Elevated input costs, coupled with high freight and fuel expense, have aggravated the cost pressure, which in turn has impacted the profitability of cement companies. Hence, the company remains exposed to the risk arising out of the fluctuation in the prices of the crude in future. Furthermore, the price of cement

remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials, fuel or crude cost without a corresponding movement in the price of cement can affect the profitability of the company.

Cyclicity of the cement industry and industry outlook

The cement industry is highly cyclical and depends largely on the economic growth of the country. There is a high degree of correlation between GDP growth and the growth in cement consumption. Cement is a cyclical industry that goes through phases of ups and downs and accordingly impacts the unit realisations. The macros of the cement industry remain stable in the long term, driven by demand from the urban housing sectors, upcoming infrastructure projects as well as generous rural demand, though presently the sector is riddled with cost-side issues. In the present circumstances where the sector is grappling with the higher fuel cost, a sustained increase in prices without impacting the demand momentum stands critical for the operational performance of the players in the near term. While the credit metrics of the industry largely remain stable due to the net cash-positive position of the large players, medium-sized players are likely to witness more moderation in the credit metrics due to subdued profitability and capex-related debt, which is expected to come on their balance sheets. The players need to take price hikes in a gradual manner such that it should not weigh down on demand revival. An increase of approximately ₹25-30 per bag would be required to offset the cost inflation on a year-to-year basis and a hike of ₹45-50 per bag is required to restore the profitability to FY21 levels.

Liquidity: Adequate

The adequate liquidity position is marked by GCA of Rs.24.05 crores with total repayment obligations of Rs.1.82 crores in FY23. The company has cash and bank balances of Rs.0.50 crore as on March 31, 2022, which increased to Rs.3.11 crore as of Sep 30, 2022. Further, the average utilization was moderate at 53.47% for the last twelve months ended in October 2022. The company's cash flow operations stood at Rs. 3.15 crore for FY22.

Applicable criteria

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

About the company

Keerthi Industries Limited (KIL) was initially incorporated as Suvarna Cements Limited by the 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 specialized cement of 43 & 53 grades i.e., Ordinary Portland Cement (OPC) and Pozzolona Portland Cement (PPC). The manufacturing facility of cement is located in the 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 The Singareni Collieries Company Limited (SCCL). The company sells to customers located in Andhra Pradesh and Telangana.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(UA)
Total operating income	232.27	250.04	107.37
PBILDT	48.57	31.21	3.72
PAT	19.26	15.64	-0.76
Overall gearing (times)	0.40	0.35	NA
Interest coverage (times)	9.17	9.34	2.43

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer to Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	October 2028	30.10	CARE BBB-; Negative
Non-fund-based - LT-Bank Guarantee		-	-	-	10.00	CARE BBB-; Negative

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (06-Jan-22)	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)

3	Non-fund-based - LT-Bank Guarantee	LT	10.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)
4	Fund-based - LT-Term Loan	LT	30.10	CARE BBB-; Negative				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

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

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About us:

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