Anjani Portland Cement Limited

January 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00 (Enhanced from 30.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed and removed from Credit watch with Developing Implications
Total Bank Facilities	**45.00 (Rs. Forty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Anjani Portland Cement Ltd (APCL) have been removed from 'Credit Watch with Developing Implications' following the conclusion of acquisition of Bhavya Cements Pvt Ltd (BCPL) in June 2021. CARE has now analyzed the impact of the acquisition on the credit risk profile of APCL and accordingly reviewed the ratings.

The reaffirmation of ratings assigned to the bank facilities of Anjani Portland Cement Limited (APCL) takes into cognizance the experience of the promoter in the cement industry, synergies of operation between APCL and the parent company Chettinad Cement Corporation Private Limited (CCCL, rated 'CARE AA+; Stable/ CARE A1+'), integrated nature of operations with presence of captive power plant & limestone mines and comfortable financial risk profile. The ratings also factor in expected benefits derived by APCL from acquisition of BCPL and it being part of Chettinad group

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 profitability margins beyond 30.25% (FY21 level of PBILDT margin) on sustained basis
- Increased geographical diversification on a sustained basis.
- Improvement in the credit profile of the parent CCCPL

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

- Significant deterioration in the profitability margin below 20% (FY20 level) on a sustained basis.
- Deterioration in the credit profile of the parent CCCPL
- Any large debt funded capex leading to significant weakening of the capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Part of Chettinad group of companies – demonstrated support from group entities

APCL is part of the Chennai-based Chettinad group which was formed in 1935. Chettinad group has a diversified business with interests in cement, construction, logistics, engineering, education, transportation, healthcare and other businesses. One of the flagship companies of the Chettinad Group is Chettinad Cement Corporation Pvt Ltd (CCCL, rated 'CARE AA+; Stable/ CARE A1+'), is the holding company of APCL. Other notable companies of the group include South India Corporation Private Limited (SICPL, rated 'CARE A; Stable/CARE A1') and Chettinad Logistics Private Limited (CLPL, rated 'CARE A; Stable/CARE A1'). In the past, APCL has received support from its group entities in the form of Inter Corporate Deposits (ICD) and corporate guarantee to its bank facilities from CCCL. In H1FY22 (refers to period from April 01 to Sep 30) as well, APCL has received funds from CCCPL in form of ICDs of Rs.460 crore (carrying rate of interest of 7%) to fund the acquisition of BCPL.

Experienced promoter and synergies of operations between CCCPL and APCL

CCCPL, the promoter of APCL, was incorporated in the year 1962 and has been in operation for more than five decades with presence across all five southern states and Maharashtra. CCCL owns and operates seven cement manufacturing plants with an aggregate installed capacity of 17.5 MTPA (million tons per annum) as on Sept 30, 2021. CCCPL holds 75% stake in APCL and both the companies are in similar line of business. APCL majorly operates in Andhra Pradesh and Telangana, which provides geographic diversification benefits for the holding company CCCL.

With high-capacity utilization of APCL (72% in FY21) and with a view to build one more brand at the group level, APCL started trading of cement since July 2018; wherein, APCL procures cement from CCCPL and sells it under "Anjani" brand in Tamil Nadu and Kerala. It is worthwhile to note that in respect of these sales, APCL is adding distributors/dealers on its own and not through CCCPL. Similarly, CCCPL also procures cement manufactured from APCL and sells it on its own brand name in the

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

states of Andhra Pradesh and Telangana. In addition to trading and management guidance from the promoter, APCL also benefits better terms from suppliers and lenders as being part of Chettinad group.

Integrated nature of operations with presence of captive power plants and limestone mines, albeit dependence on grid power to increase post acquisition of BCPL
APCL sources limestone (major raw material which constitutes nearly 60% of total raw material cost) from its three captive mines, located within 2-8 km radius from the cement plant. Such backward integration with limestone reserves ensures uninterrupted supply of quality limestone and is expected to provide operational efficiency.
In January 2017, APCL commissioned a 16 MW captive thermal power plant (CPP), with most of APCL's power requirement being met through this CPP. Around 97% of the company's total power requirement during H1FY22 was met from CPP.
In the recently acquired BCPL, the company has CPP Waste heat based power plant of 7 MW while the balance is purchased from grid. About 24% of the power requirements of BCPL were met internally in H1FY22.
Therefore, with increase in installed capacity post acquisition of BCL, addition of captive power capacity shall remain crucial in order to enable the company to be self-sufficient and reduce its power costs.

Comfortable financial risk profile characterized by nil bank debt
The company has exhibited continuous improvement in the capital structure during the past years. Due to nil debt, the overall gearing ratio has remained negligible at 0.01x as on March 31, 2021 (PY: 0.01x). Since March 31, 2019, the company has nil long-term borrowings from banks and only occasional utilization of its working capital limits. As on March 31, 2021, long-term debt stood in the form of lease liabilities of Rs.3 crore. Similarly, the company's debt metrics and coverage indicators have also stood comfortable. Total debt/PBILDT stood at 0.02 years as on March 31, 2021 (March 31, 2020: 0.03 years) while interest coverage stood at 347.64x in FY21. The company has sufficient gearing headroom and financial flexibility, to raise debt for any capex plans.
Post FY21, the company has received ICDs from parent CCCPL for funding the acquisition of BCPL. This has led to increase in overall gearing ratio to 1.39x as on Sept 30, 2021. Although, the outstanding debt is in form of parent ICDs only, neverthelss, the management plans reduction of the same in the near term by bringing in fresh equity.

Continuous improvement in the financial position of the company and relatively stable cash accruals
The company's topline has remained stable at Rs.413.75 cr in FY21 (PY: Rs.412.55 cr in FY20) on back of stable volumes and realization levels. The sales value (other than traded segment) improved to Rs.352.49 cr as against Rs.324.78 cr in FY20.
On profitability front, the company reported PBILDT margin of 30.25% in FY21 as against 20.26% in the previous year. The same was as a result of better realizations coupled with lower power and fuel and freight cost. The realization levels have improved from Rs.3,913/t to Rs.4,247/t in FY21. Accordingly, PBILDT/t has increased to Rs.1,508 as against Rs.1,007 in FY20.
PAT margin has improved from 9.78% in FY20 to 20.54% in FY21, driven by increase in operating profitability. Accordingly, APCL has generated GCA of Rs.93 cr in FY21 as against Rs.60 cr in FY20.
For H1FY22, APCL reported total income of Rs.356.03 cr (including BCPL) with PBILDT margin of 26.45%. The metrics are not comparable with corresponding period in the previous year due to acquisition of BCPL w.e.f June-21. In H1FY21, the company reported revenue of Rs.175 cr and PBILDT margin of 22.45%. Profitability dipped during H1FY22 mainly due to higher coal & freight expenses. The PBILDT/t stood at Rs.963 in H1FY22 as against Rs.1,259 in FY21.

Key Rating Weakness
Relatively moderate size and geographical concentration
APCL is a relatively moderate-sized cement player having capacity of 2.44 MTPA (post acquisition of BCPL) with major revenue coming from sale in the states of Andhra Pradesh (AP) and Telangana (TS). In an industry with high geographical fragmentation and dominance of several large players, the ability of the company to manage adverse industry scenario is limited. However, the company has started diversifying its cement dispatches to other states which resulted in about 21% of sales dispatches in H1FY22 from outside AP and TS. Sales from AP and TS markets continue to account over 70-80% of the total sales, driven by the infrastructure push from both the state governments. However, with trading of cement from Q2FY19 onwards, the company has registered incremental sales in other states (Tamil Nadu & Kerala).

Exposure to volatility in coal costs
APCL has dependence on coal, which is sourced from both domestic market and imported, thereby, exposing the company to any adverse volatility in the prices of coal. 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.

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

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.

Liquidity: Adequate
Liquidity is marked by healthy accruals. GCA has improved from Rs.47 crore achieved in FY18 to Rs.93 crore in FY21 and Rs.55 crore in H1FY22.The company has no external debt with ICDs of Rs.460 cr from parent company being the only debt on books. These are payable in 5 equal annual instalments starting FY22 for Rs.92 cr.
Post-acquisition of BCPL, the company's total cash & bank balance (lien-free) stood at Rs.0.02 crore as entire liquidity of Rs.186 cr (as on Mar 31, 2021) has been utilized towards the same. Additionally, the company has sanctioned working capital limit of Rs.65 crore (combined for APCL and BCPL) and the utilization has remained low with average utilization of ~22% for the past 12 months ended September 2021.

Analytical approach: For analysing APCL, consolidated financials have been considered due to the presence of common management and operational linkages with the subsidiaries. The entities being consolidated are as under:

Name of Entity	% Ownership	Relation with APCL
Bhavya Cement Pvt Ltd	93.53%	Subsidiary

Change in approach: A standalone approach was being followed earlier. Now, CARE Ratings has changed its analytical approach to a consolidated basis after the acquisition of BCPL due to presence of common management and strong business and operational linkages between the two entities.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Consolidation
Financial ratios - Non-Financial Sector
Rating Methodology - Cement industry
Rating Methodology – Manufacturing Companies
Notching by factoring linkages in ratings

About the Company
Established in the year 1983, Anjani Portland Cement Limited (APCL) was incorporated as Shez Chemical Limited and promoted by Syed Badruddin Shez and Naseerudin along with two NRI's. During the year 1985, the name of the company was changed to Shez Cements Limited. The company was acquired by K.V. Vishnu Raju during the year 1999 and the name of the company was changed to the current name APCL. On March 2014, Chettinad Cement Corporation Private Limited (CCCL) acquired 75% of the total shares of APCL. APCL manufactures three types of cement: Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC) and Composite Cement (CC). During FY20, OPC (43 & 53 grade) accounted for around 78% of the total sales followed by PPC (14%) and CC (8%).
The company has acquired BCPL in June-21. Post the acquisition, the installed capacity has increased to 2.44 MTPA (1.28 MTPA in BCPL) in totality, majorly in AP and Telangana. The company also has captive thermal power plant with an aggregate capacity of 16 MW and waste heat recovery plant of 7 MW in BCPL as on March 31, 2020.
APCL sells its cement under the brand name of "Anjani" and has a dealer network of around 1,500 with presence across the southern states. From Q2FY19, APCL has also started trading of cement.

Brief Financials (APCL Consolidated; Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	413	414	356
PBILDT	84	125	80
PAT	40	85	33
Overall gearing (times)	0.01	0.01	1.39
Interest coverage (times)	440.00	347.64	7.12

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

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
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE A+; 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	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (01-Jun-18)
2	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	1)CARE A1+ (CWD) (04-Jun-21)	1)CARE A1+ (07-Dec-20)	1)CARE A1 (26-Dec-19)	1)CARE A1 (14-Dec-18) 2)CARE A1 (01-Jun-18)
3	Fund-based - LT-Cash Credit	LT	35.00	CARE A+; Stable	1)CARE A+ (CWD) (04-Jun-21)	1)CARE A+; Stable (07-Dec-20)	1)CARE A; Stable (26-Dec-19)	1)CARE A; Stable (14-Dec-18) 2)CARE A; Stable (01-Jun-18)
4	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	1)Withdrawn (26-Dec-19)	1)CARE A1 (14-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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	Non-fund-based - ST-BG/LC	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.

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