Anjani Portland Cement Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	35.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**45.00 (₹ Forty-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

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

- Enhancement in the total capacity of APCL without significantly impacting its capital structure.
- 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 financial and operational performance on a sustained basis such that topline dips below ₹800 crore on a consolidated level and PBILDT margin below 8%.
- 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 a part of the Chennai-based Chettinad group, which was formed in 1935. The 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 (CCCPL, rated 'CARE AA+; Stable/ CARE A1+'), which 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). In H1FY22 (refers to the period from April 01 to September 30) as well, APCL had received funds from CCCL in form of ICDs of ₹460 crore (carrying rate of interest of 7% in FY22 [refers to the period April 1 to March 31] revised to 6% from April 2022) to fund the acquisition of BCPL, outstanding to the extent of ₹435 crore as on March 31, 2022.

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. CCCPL owns and operates seven cement manufacturing plants with an aggregate installed capacity of 17.5 million tons per annum (MTPA) as on November 30, 2022. CCCPL holds 75% stake in APCL and both the companies are in

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

similar line of business. APCL majorly operates in Andhra Pradesh and Telangana, which provides geographic diversification benefits for the holding company, CCCPL.
With high-capacity utilisation of APCL (78% in FY22) 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 noteworthy 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 under its own brand name in the states of Andhra Pradesh and Telangana. In addition to trading and management guidance from the promoter, APCL also benefits from better terms from suppliers and lenders as being part of the 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 the 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 96% of the company's total power requirement during FY22 was met from CPP.
Furthermore, BCPL, which was acquired by APCL in June 2021, meets its power requirement through waste heat-based power plant of 7 MW and the balance requirement is purchased from grid by BCPL. About 29% of the power requirements of BCPL were met internally in FY22.
Therefore, with increase in the 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.

Topline growth driven by robust demand and improved realisation: Owing to the acquisition of BCPL in June 2021, the company's topline has increased from ₹414 crore in FY21 to ₹803 crore in FY22 on a consolidated basis. On a standalone basis, the company's topline witnessed a growth of 14% and stood at ₹471 crore in FY22 as compared with ₹414 crore in FY21. The increase in the topline is attributable to improving volumes and realisation levels. The cement volume (excluding traded cement) witnessed an increase of 10% on a standalone basis from 0.84 million ton in FY21 to 0.92 million ton in FY22. Furthermore, the sales realisation per ton for FY22 stood at ₹3,960/t as compared with ₹3,430/t, i.e., an increase of 15%.
During H1FY23, the company's sales volume stood at 0.77 million ton and the reported total income stood at ₹378 crore.
During the same period, the company's cement sales realisation stood at ₹4,149/t.
The capacity utilisation for FY22 stood at 78% (PY: 72%). Going forward, the utilisation is expected to be range bound between 75% and 80%.

Stable capital structure with debt from parent company: As on March 31, 2022, the total consolidated debt of the company stood at ₹501 crore out of which ₹435 crore pertains to ICDs received from CCCPL, its holding company, for acquisition of BCPL, ₹45 crore pertains to the working capital term loan availed by BCPL and ₹17 crore pertains to short-term borrowings availed by BCPL. The overall gearing ratio stood at 1.56x as on March 31, 2022, compared with 0.01x as on March 31, 2021. The significant increase in the overall gearing is on account of receipt ICDs from CCCPL for acquisition of BCPL.
APCL has also come up with a rights issue of ₹249.06 crore. In this regard, the board resolution has approved the rights issue on December 08, 2022, with a record date of December 16, 2022. The shares allotted under rights issue shall be listed on the stock exchange on February 1, 2022. The offer price of the company is ₹197 per share (including share premium of ₹187 per share). The proceeds of the rights issue will be used for repaying the ICDs of CCCPL to the extent of ₹249.06 crore. In subsequent years, as the debt is paid off and the net worth of the company is increased on account of rights issue, the overall gearing ratio is expected to remain below 1x.

Key rating weaknesses

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 24% of sales dispatches in H1FY23 from outside AP and TS. The 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 and Kerala).

Exposure to volatility in input costs: APCL, like other cement players, remains exposed to any adverse volatility in the prices of these commodities, impacting the profitability. The average prices of coal have increased from ₹5,644/MT for FY21 to ₹9,271/MT for FY22, and further soared high upto ₹14,305/MT in Q2FY23. Accordingly, the power and fuel cost has escalated to ₹1,767/t in FY22 as against ₹1,143/t in FY21 and for H1FY23 the same stood at ₹2,615/t.

Reduced profitability owing to volatile raw material prices: During FY22, the PBILDT margin deteriorated from 30.25% to 18.35%, while profit after tax (PAT) margin deteriorated from 20.54% to 5.23%. The deterioration in profitability was on account of steep increase in the prices of coal in H2FY22 owing to which PBILDT/t for FY22 stood at ₹725/t as against ₹1,259/t i.e. 42% decrease in profitability. Furthermore, the power and fuel cost per ton increased from ₹1,143/t to ₹1,767/t, i.e., a 55% increase. The situation worsened in Q2FY23 with average coal prices for the company increasing by further 54% as compared with FY22 owing to the Russia-Ukraine conflict. The power and fuel cost per ton increased to ₹2,615/t i.e. a 48% increase on a sequential basis. The steep increase in the prices of coal resulted in a sharp deterioration in the profitability in H1FY23 with PBILDT per ton at ₹179/t compared with ₹725/t in FY22.

Cyclicity of the cement industry and industry outlook: 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 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 the 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 back to FY21 levels.

Liquidity: Adequate

The liquidity is marked by healthy accruals. The GCA of the company stood at ₹94 crore for FY22. On a standalone basis, the company has no external long-term debt with only ICDs of ₹435 crore from the parent company. On a consolidated basis, the long-term debt of the company includes working capital term loan of ₹45 crore availed by BCPL. The interest rate on the ICDs have been revised from 7% in FY22 to 6% from April 2022. The company is expected to prepay the ICD of CCCPL to the extent of ₹249.06 crore from the rights issue, which is expected to be completed by February 2023. Going forward, the company has projected repayment of ₹62 crore of ICDs in FY24 and FY25 each, which is expected to be comfortably met out of the cash accruals of the company.

The company’s total cash and bank balance as on March 31, 2022, stood at ₹8.43 crore. As on September 30, 2022, the company has a cash and bank balance of ₹61 lakh and FD of ₹2 lakh. The margin money stands at ₹2.83 crore.

The working capital utilisation of the company stood at 58% (previously 14%) on a combined basis and 39% (previously 10%) on a standalone basis for the last 12 months ending October 2022. The significant increase is on account of steep increase in the prices of power and fuel expense. With respect to capex, there are no immediate expansion plans by the company.

ESG profile:

The cement manufacturing industry is energy and fuel intensive and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to the health and safety effects of its operations on the society and its employees and changing preference of the end-user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process. The annual report for FY22 highlights the below initiatives undertaken by the company:

Environmental:

The company has adopted the best techniques in its manufacturing process of cement (product) by using its resources optimally and leaving minimal footprints. The company’s efforts in addressing these concerns include the following:

- Alternate fuels like industrial waste were used in place of indigenous / imported coal to substitute coal to an extent 11.435% of thermal energy requirement in the plant.
- Consuming of fly ash in finished product.
- Consuming of granulated slag in finished product.

- Installation of Captive Power Plant of 16 MW. Continual improvement in efficiency to bring down heat rate and auxiliary power consumption in the power plant.
- Using latest mining techniques to reduce wastage.
- Criteria used to source its suppliers is sustainability, resource efficiency, product quality, environment impact, etc.

Social:
The company involves with the local community around the plant to understand their concerns, and CSR initiatives are carried out as a need-based approach. The company has spent ₹137 lakh as part of its CSR initiative during the year towards projects in the educational sector, and on the rural development front, the company has undertaken project to build pukka roads.

Governance:
The company's philosophy on Corporate Governance aims at ethical corporate behaviour and a management policy aimed at meeting its commitment and assuring optimum tangible and intangible returns to all its stakeholders including the social and economic environment in which your company evolves. The company always strives to achieve optimum performance at all levels by adhering to most ethical corporate governance practices.

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 considered in consolidation are mentioned in **Annexure-6** below.

Applicable criteria

Policy on default recognition

Consolidation

Factoring Linkages Parent Sub JV Group

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Cement

Manufacturing Companies

Policy on Withdrawal of 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 cements: Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC) and Composite Cement (CC). During FY22, OPC (43 & 53 grade) accounted for around 63% (PY: 79%) of the total sales followed by PPC at 25% (PY: 11%) and CC at 12% (PY: 10%).
The company has acquired BCPL in June 2021. 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, 2022.
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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	414	803	378
PBILDT	125	147	13
PAT	85	42	-27
Overall gearing (times)	0.01	1.56	NA
Interest coverage (times)	347.64	5.04	0.73

A: Audited, UA: Un-audited, 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 Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	35.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A1+

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	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (05-Jan-22) 2)CARE A1+ (CW with Developing Implications) (04-Jun-21)	1)CARE A1+ (07-Dec-20)	1)CARE A1 (26-Dec-19)
2	Fund-based - LT-Cash credit	LT	35.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-22) 2)CARE A+ (CW with Developing Implications)	1)CARE A+; Stable (07-Dec-20)	1)CARE A; Stable (26-Dec-19)

						(04-Jun-21)		
3	Fund-based - ST-Working capital demand loan	ST	-	-	-	-	-	1)Withdrawn (26-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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	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

Annexure-6: Entities being consolidated

Companies consider under consideration	Subsidiary/Associate	% of share held
Bhavya Cements Private Limited	Subsidiary	99.09%

Note on complexity levels of the rated instruments: CARE Ratings 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
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ravleen Sethi
Phone: 9818032229
E-mail: ravleen.sethi@careedge.in

Relationship contact
Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

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