# Chettinad Cement Corporation Private Limited

January 06, 2023

## Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 125.00 | CARE AA+; Stable (Double A Plus; Outlook: Stable) | Reaffirmed |
| Long-term / Short-term bank facilities | 75.00 | CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus) | Reaffirmed |
| Short-term bank facilities | 375.00 (Enhanced from 175.00) | CARE A1+ (A One Plus) | Reaffirmed |
| **Total bank facilities** | **575.00 (₹ Five hundred seventy-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 Chettinad Cement Corporation Private Limited (CCCPL) continues to factor in the established track record of the company in the cement industry with strong brand presence in the states of Tamil Nadu (TN) and Kerala, backward integration in the form of captive limestone mines and captive power plants, benefits derived from being part of the Chettinad group and strong financial position characterised by low leverage levels and strong liquidity.

The ratings are, however, constrained by moderate capacity utilisation, exposure to volatility in the input costs and its presence in a competitive and cyclical cement industry.

## Rating sensitivities

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Significant increase in capacity to become a large-sized player with a PAN-India presence.
- Diversification of customer markets with presence across all the regions and maintenance of PBILDT margins over 18%-20% on sustained basis.
-

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Significant deterioration in the profitability with PBILDT margin below 10% on a sustained basis.
- Any significant weakening in the leverage indicators with net debt/PBILDT of above 1.2x on a sustained basis.
- Relatively high amount of demand from IT department on account of past search operations, leading to moderation in the financial and credit risk profile.

## Detailed description of the key rating drivers

**Key rating strengths**

**Established track record in the cement industry:** CCCPL, incorporated in 1962 and commenced commercial operations in 1968, has been in operation for more than five decades, with the company increasing its operational capacity over the past few years to 17.5 MTPA on standalone basis and 19.94 MTPA on a consolidated basis as on November 30, 2022. M.A.M.R. Muthiah is the Managing Director and looks after day-to-day affairs of the company. The top management of CCCPL comprises experienced and qualified professionals, most of whom have been associated with the company for a long period.

**Part of the Chettinad group – demonstrated support from group entities:** The company enjoys operational and synergistic benefits by being a part of the Chettinad group. CCCPL's coal and pet coke requirement are sourced through some of its group companies, namely, Chettinad Logistics Private Limited (rated 'CARE A; Stable/ CARE A1').

**Strong brand presence in Tamil Nadu and Kerala markets; growing presence in other markets:** CCCPL enjoys good brand image in its principal markets, namely, Tamil Nadu (TN) and Kerala with presence also in Puducherry, Karnataka,

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

Maharashtra, Andhra Pradesh (AP) and Telangana. For the past several years, CCCPL had been deriving majority of its sales from TN and Kerala. Post commissioning of plants in Karnataka (in FY12) and Maharashtra (in FY17), the company has been diversifying its geographic presence, thus reducing its dependency on TN and Kerala markets. The company had improved the sales from other states (Karnataka, Maharashtra, AP and Telangana) from 37% of the total sales in FY16 to 49% of total sales in H1FY23 (refers to period from April 01 to September 30), on the back of increasing demand in these markets.
Furthermore, the company has been expanding its capacity across these markets to boost sales. During FY20, the company has commissioned an integrated cement plant at Dachepalli, Andhra Pradesh (2.1 MTPA) and expanded the capacity of the existing cement grinding unit at Solapur, Maharashtra (by 1 MTPA). In addition, the company has commissioned one cement grinding units at Vizag, Andhra Pradesh for 2 MTPA (1.18 MTPA in October 2021 and 0.82 MTPA in April 2022) and acquired Bhavya Cements Pvt Ltd (BCPL; rated 'CARE A; Stable/ CARE A1') having installed capacity of 1.28 MTPA in June 2021. Going forward, CCCPL plans to expand its capacities in eastern India. New capacity additions are expected to aid the company in growing its penetration in the southern markets and gradually diversify into newer markets (Eastern and Central).

**Backward linkage with captive limestone mines:** CCCPL sources limestone (major raw material, which constitutes nearly 50% of the total raw material cost) from various captive mines. Most of these mines are located adjacent to the plant or within short radial distance.

**Energy-efficient plants with availability of captive power:** CCCPL's manufacturing facilities are energy-efficient with electricity consumption of about 70 kWh/MT of cement production during FY22. As on March 31, 2022, CCCPL had an aggregate captive thermal power plant (CPP) capacity of 165 MW, WHRS capacity of 19 MW and solar power capacity of 6MW (3 MW each in Kallur and Solapur), which catered to almost the entire power requirement of the manufacturing facilities. During FY22, nearly 80% (PY: 82%) of the company's total power requirement was met from CPPs. The presence of captive power capacity has enabled the company to be self-sufficient to cater to the power requirements of its manufacturing plants, even during power-deficit situations.

**Topline growth driven by robust demand and improved realisation:** During FY22, the sales revenue marked a growth of around 24% and stood at ₹4,972 crore compared with ₹4,109 crore in FY21. Furthermore, Anjani Portland Cement Ltd (APCL rated 'CARE A+; Stable/ CARE A1+'), a subsidiary of CCCPL, acquired BCPL with effect from June 2021, which is also reflected in the topline of CCPL on a consolidated basis. The consolidated sales volume, stood at 10.2 million ton in FY22 compared with 8.31 million ton in FY21. The sales realisation (excluding freight and packing expense) improved from ₹3,894/t to ₹4,029/t on a consolidated basis.
During H1FY23, on a consolidated level, CCCPL's sales volume grew by 13% y-o-y from 4.57 million ton (BCPL – 0.37 mn ton, APCL – 0.4 mn ton and CCCPL – 4.4 mn ton) to 5.17 million ton. During the same period, the company's cement sales realisation stood at ₹4,869/t.
The capacity utilisation for FY22 improved from 49% in FY21 to 60% in FY22 on account of improved utilisation at the Dachepalli plant, which was commissioned in FY20. Going forward, with addition of capacities, the utilisation is expected to be range bound between 50% and 55%.

**Comfortable financial risk profile with strong liquidity position:** As on March 31, 2022, the total consolidated debt of the company stood at ₹195 crore out of which ₹130 crore pertains to soft loans from SIPCOT under the Structured Incentives Package company, ₹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 as at March 31, 2022, stood at the same level as on March 31, 2021 i.e. 0.06x. The company has liquid investment of ₹1,559 crore as on March 31, 2022, which results in a net negative debt for the company. Total debt/ PBILDT stood at 0.21x as on March 31, 2022 (PY: 0.18x). The company has sanctioned working capital limits of ₹125 crore, which was not utilised during the year.

**Key rating weaknesses**

**Exposure to volatility in input costs:** Although major share of CCCPL's coal and pet coke requirement are sourced through some of its group companies, it remains exposed to any adverse volatility in the prices of these commodities, impacting the profitability. Power and fuel costs have escalated from ₹1,086/ton in FY21 to ₹2,268/ton in H1FY23.

**Reduced profitability owing to volatile raw material prices:** During FY22, the PBILDT margin deteriorated from 28.47% to 20.29%. 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 ₹989 as against ₹1,391 i.e. 29% decrease in profitability. Furthermore, the power and fuel cost per ton increased from ₹1,086/t to ₹1,562 i.e. a 48% increase. The situation worsened in H1FY23 with coal prices increasing by further 39% as compared with FY22 owing to the Russia-Ukraine conflict. The power and fuel cost per ton increased from ₹1,299 per ton in H1FY22 to ₹2,268 per ton i.e. a 75% increase on a y-o-y basis and 45% 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 ₹346/t compared with ₹989/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: Strong

The liquidity is marked by strong accruals against low repayment obligations and cash and equivalents to the tune of ₹1,115 crore as on September 30, 2022. With a gearing of 0.06x as on March 31, 2022, the company has sufficient gearing headroom, to raise additional debt for its capex, if necessary. However, the promoters continue to follow a debt conservative approach and any further capex is expected to be funded largely out of internal accruals and available liquidity. Continuing with its capacity additions, the company is planning expansion of the Kallur unit with addition of 2 MTPA of clinker capacity and 2.5 MTPA of grinding capacity, which is expected to be completed by March 2024 and September 2024, respectively, with total estimated cost of ₹1,350 crore to be entirely funded through internal accruals and cash.
The company’s unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year, as average working capital utilisation was around 20% for the last 12-month period ended October 2022.
Furthermore, the company at consolidated level has repayment due of ₹39 crore in FY23, ₹87 crore in FY24 and ₹30 crore in FY25, which is expected to be comfortably met out of the cash accruals of 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 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 practices:**

- The company, which has always been striving for total quality, possesses International Certification ISO 9001: 2015, ISO 14001:2015, ISO 45001:2018 and ISO 50001: 2018 and takes pride in being acclaimed as one of the major player in a highly competitive Cement Industry in India.
- The company has installed a Mineral Sand producing Unit with a capacity of 1 Million Ton during the FY20-21 at Karikkali for converting waste to wealth.
- Company has installation of the latest pollution control equipment at all its plants.

**Social**

The company has been giving back to the society through various initiatives like, construction of cancer hospital, casualty room, constructing panchayat office and contributing to various requirements of school in vicinity of plant.

**Analytical approach:** For analysing CCCPL, 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

Chettinad Cement Corporation Private Limited (CCCPL), incorporated in 1962 and belonging to the 'House of Chettinad', is engaged in the manufacture of cement since 1967. The group has varied business interests in cement, engineering, logistics, transportation, education, healthcare and other businesses. CCCPL manufactures four types of cements: Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), Sulphate Resistant Portland Cement (SRC-PC) and Portland Slag Cement (PSC). CCCPL owns and operates six cement manufacturing plants (including a grinding unit) with an aggregate installed cement production capacity of 17.5 MTPA (million tonne per annum) on standalone basis and 19.94 MTPA on consolidated basis as on November 30, 2022. CCCPL had an aggregate captive thermal power plant (CPP) capacity of 165 MW, WHRS capacity of 19 MW and solar power capacity of 6MW as on March 31, 2022, which catered to almost the entire power requirement of the manufacturing facilities. As on March 31, 2022, the promoter group held 97.23% of the shares with remaining 2.77% held by The Tamil Nadu Industrial Investment Corporation Limited.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | H1FY23(UA) |
|---|---|---|---|
| Total operating income | 4,019 | 4,972 | 2,520 |
| PBILDT | 1,144 | 1,009 | 179 |
| PAT | 629 | 499 | -16.44 |
| Overall gearing (times) | 0.05 | 0.06 | NA |
| Interest coverage (times) | 178.53 | 81.47 | 44.75 |

A: Audited, UA: Un-audited, NA: Not available.

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**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 | | - | - | - | 125.00 | CARE AA+; Stable |
| Non-fund-based - LT/ ST-Letter of credit | | - | - | - | 75.00 | CARE AA+; Stable / CARE A1+ |
| Non-fund-based - ST-Letter of credit | | - | - | - | 375.00 | 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 | Fund-based - LT-Cash Credit | LT | 125.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (07-Jan-22) | 1)CARE AA+; Stable (30-Dec-20) | 1)CARE AA+; Stable (26-Dec-19) |
| 2 | Non-fund-based - ST-Letter of credit | ST | 375.00 | CARE A1+ | - | 1)CARE A1+ (07-Jan-22) | 1)CARE A1+ (30-Dec-20) | 1)CARE A1+ (26-Dec-19) |
| 3 | Non-fund-based - LT/ ST-Letter of credit | LT/ST* | 75.00 | CARE AA+; Stable / CARE A1+ | - | 1)CARE AA+; Stable / CARE A1+ (07-Jan-22) | 1)CARE AA+; Stable / CARE A1+ (30-Dec-20) | 1)CARE AA+; Stable / CARE A1+ (26-Dec-19) |

*Long term/Short term.

## Annexure-3: Detailed explanation of the covenants of the rated instruments/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 - LT/ ST-Letter of credit | Simple |
| 3 | Non-fund-based - ST-Letter of credit | 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 |
|---|---|---|
| Anjani Portland Cement Ltd | Subsidiary | 75% |
| Chettinad Power Corporation Private Limited | Subsidiary | 100% |
| Grand Paper & Boards Private Limited | Subsidiary | 100% |
| Belaire Apartments Private Limited | Subsidiary | 100% |
| Grand Lanka Exim (Private) Ltd. | Step-down subsidiary. Grand Paper & Boards Private Limited holds 98% shares | 98% |
| Bhavya Cements Private Limited | Step-down subsidiary.<br><br>Anjani Portland Cement Ltd holds 99.09% shares | 74.31% |

**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

**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



**For the detailed Rationale Report and subscription information, please visit www.careedge.in**