Keerthi Industries Limited

November 16,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	49.51 (Reduced from 50.10)	CARE BB+; Negative	Revised from CARE BBB-; Negative

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings of the bank facilities of Keerthi Industries Limited (KIL) is on account deterioration in operational performance in FY23 [FY refers to the period April 01 to March 31] which continued in Q1FY24, weak financial performance in H1FY24 with loss at operating level, high working capital utilization and stretched liquidity. The ratings continue to remain constrained by relatively moderate size of the company, regional concentration risk with the majority of sales coming from Andhra Pradesh and Telangana markets, volatility associated with input and finished good prices and its presence in a competitive and cyclical cement industry. The rating weaknesses are offset by the experienced promoters and qualified management team, established track record of operations, integrated nature of operations with the presence of limestone mines, satisfactory capital structure, comfortable operating cycle and stable industry outlook.

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 outlook to the long-term ratings of KIL continues to be 'Negative' on account of CARE Ratings' belief that the operating performance is expected to remain subdued in FY24. The accruals generated from operations are expected to be tightly matched with scheduled debt and interest repayments during FY24. The company is expected to rely on unsecured loans from promoters in case of shortfall in meeting the scheduled debt and interest repayments. The outlook may be revised to 'Stable' in case KIL is able to improve its overall operational performance along with its debt coverage ratios.

Detailed description of the key rating drivers:

Key weaknesses

Deterioration in operational performance in FY23 and Q1FY23

The operational performance of the cement division has remained weak with further deterioration in FY23 compared to FY22 as witnessed by an decrease in capacity utilization to 80.56% as against 87.51% in FY22. Revenue derived from the electronic division remained almost similar at Rs.18.23 crore in FY23 (FY22: Rs.18.15 crore). However, revenue from cement division witnessed a decline by about 4%. Total production volume in FY23 stood at 0.48 MTPA which is lower by about 8% in comparison to FY22. However, sales realization stood almost similar at Rs.4416 per MT resulting in marginal decline in revenue from cement segment. The performance continued to remain weak in Q1FY23 with production volume recorded being 0.12 MTPA with a capacity utilization of ~80%.

Deterioration in financial profile in FY23 and weak performance in H1FY24

With stable realizations, the company's revenue in FY23 stood at Rs.240.75 crore which is a marginal decline from Rs.250.04 crore reported in FY22. The revenue is stable owing to persistent demand from the infrastructure segment in FY23. However, 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 FY23. 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, KIL reported operating loss of Rs.0.18 crore in FY23. With high interest and depreciation expenses, net loss widened to Rs.7.24 crore which is higher than the projected loss.

Further, in H1FY24, KIL reported a total income of Rs.105.69 crore (H1FY23: Rs.107.37 crore). Despite reporting similar revenue in H1FY24 in comparison with corresponding period of previous year, KIL was unable to absorb the input costs resulting in increase

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

in operating loss to Rs.1.72 crore and net loss of Rs.10.16 crore. Further, for the period H1FY24, KIL reported cash loss of Rs.4.19 crore.

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 goods 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. Owing to this significant rise in price, the average fuel cost for the industry has increased by Rs 400-500 per tonne y-o-y in H1FY23 to approximately Rs 1700 per tonne. Companies reported their lowest operating profitability (EBITDA) of the last 12 quarters in Q2FY23 owing to a sharp uptick in operating costs, driven largely by power & fuel costs.

However, after witnessing a lifetime high in August and September 2022, the coal and pet coke prices witnessed a significant fall upto Q4FY23. However, the price reduction in the coal and pet coke prices started reflecting in power and fuel cost per ton for the companies only in Q4FY23 as the companies carried high-cost inventory. Going forward as companies use low-cost coal and pet coke inventory in production, in Care Edge's estimate the power & fuel cost per tonne shall be reduced by Rs 200 – 250 per tonne on a y-o-y basis and may stabilize at those levels. The benefit of the said reduction in cost will be spread over different quarters depending on inventory levels with various players. However, any spurt in fuel prices remains a key monitorable and may impact the earnings of players. The freight cost per ton has not increased much and largely remained stable as the volatility in diesel prices has not been much on a year-to-year basis.

Cyclicality of the cement industry
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.

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.

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 capital structure
The capital structure of the company marked by overall gearing though deteriorated to 0.44x as of March 31, 2023 (0.35x as on March 31, 2022). 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. This coupled with reduction in networth as of account closing date due to net loss in FY23 resulted in weakening of overall gearing. Unsecured loans infused by promoters are considered as quasi equity as they are subordinated to bank debt. This had resulted in higher networth leading to low overall gearing. The company is servicing its interest and repayment obligations through available cash balances.

Comfortable operating cycle
The operating cycle of the company is comfortable at 34 days in FY23 (31 days in FY22) with inventory days of 45 days (41 days in FY22) for maintaining stocks of raw materials and coal. The company provided a credit period of around 7 days to its customers while obtaining 20 days of credit from its suppliers (18 days in FY22).

Liquidity: Stretched

The liquidity position of KIL remains stretched on account of operational losses. The company largely has available cash & bank balance and extension of creditor payments for funding its losses and servicing its interest and debt obligations in FY23 and H1FY24. While the promoters have financial flexibility, which has been demonstrated over the past by way of infusion of unsecured loans, the operating performance of KIL has however deteriorated over the years leading to lower-than-expected accruals and thereby affecting its liquidity profile as well. The scheduled debt obligations for FY24 is Rs.3.31 crore of which Rs.0.48 crore has been paid until October 2023. Additionally, the company has access to fund-based working capital limit of Rs.10 crore, which are utilised to the extent of around 94% as July 31, 2023. Infusion of funds by promoters going forward to meet the operational and financial obligations would be critical from credit perspective.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	250.04	240.75	105.69
PBILDT	31.21	-0.18	-1.72
PAT	15.64	-7.24	-10.16
Overall gearing (times)	0.35	0.44	NA
Interest coverage (times)	9.34	-0.05	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

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		-	-	-	10.00	CARE BB+; Negative
Fund-based - LT-Term Loan		-	-	October 2028	29.51	CARE BB+; Negative
Non-fund-based - LT-Bank Guarantee		-	-	-	10.00	CARE BB+; 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Jan-22)	1)CARE BB+; Stable (16-Mar-21)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Negative	-	1)CARE BBB-; Negative (02-Feb-23)	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BB+; Stable (16-Mar-21)
3	Non-fund-based - LT-Bank Guarantee	LT	10.00	CARE BB+; Negative	-	1)CARE BBB-; Negative (02-Feb-23)	1)CARE BBB-; Stable (06-Jan-22)	1)CARE BB+; Stable (16-Mar-21)
4	Fund-based - LT-Term Loan	LT	29.51	CARE BB+; Negative	-	1)CARE BBB-; Negative (02-Feb-23)	-	-

*Long term.

Annexure-3: Detailed explanation of 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 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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About us:

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