Anjani Portland Cement Limited

January 8, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.00	CARE A+; Stable	Reaffirmed
Short Term Bank Facilities	10.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings to the bank loan facilities of Anjani Portland Cement Limited (APCL). The rating continues to factor in strong parentage of Chettinad Cement Corporation Pvt Ltd (CCCPL, rated 'CARE AA+; Stable/CARE A1+') with track record of funding support from CCCPL. APCL has integrated cement units with significant captive limestone reserves and partial captive power sources. Further, the rating takes comfort from its limited external debt vis a vis parent funding.

These strengths are partially tempered by its weakened operating efficiencies resulting in weakened debt coverage metrics. The company's operating margins are vulnerable to demand-supply dynamics as well as volatility in input prices. The company operates at a relatively modest scale of operations with geographically concentrated revenues in southern India cement market which is characterised with overcapacity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- Continued significant deterioration in the operational metrics beyond FY24.
- Any significant external debt funded capital expenditure programme which has an impact credit profile.
- Deterioration in the credit profile of the parent, CCCPL.

Analytical approach: Consolidated

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.

Furthermore, CARE Ratings has factored in the linkages with the parent entity; Chettinad Cement Corporation Private Limited (CCCPL, rated CARE AA+; Stable/CARE A1+).

Outlook: Stable

The 'stable' outlook reflects CARE Ratings' belief that APCL will derive benefit from the financial flexibility of its strong parent while improving its business profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Strong parentage along with strong track record of funding support

APCL is a part of the Chennai-based Chettinad group, which was formed in 1935. Chettinad Cement Corporation Pvt Ltd (CCCPL, rated 'CARE AA+; Stable/ CARE A1+'), which is the holding company of APCL, is the flagship company of the Chettinad group. CCCPL owns and operates seven cement manufacturing plants (including two split grinding unit) with an aggregate installed cement production (clinker backed) capacity of 17.5 MTPA (13.47) on standalone basis while 20.1 MTPA (15.91 MTPA) on consolidated basis which includes two integrated cement units in its subsidiary as on December 31, 2023. In the past, APCL has received support from CCCPL 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 CCPL in form of ICDs of ₹460 crore (carrying rate of interest of 7%) to fund the acquisition of BCPL, outstanding to the extent of ₹377 crore as on March 31, 2023. Additional funding support was also witnessed in FY23 and FY24 to BCPL, subsidiary of APCL, to retire its term loan and reduce working capital debt. Hence, there is demonstrated track record by the ultimate parent to support its subsidiary. CCCPL has cash & cash equivalents of ₹954 cr as on November 30, 2023.

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

Integrated nature of operations with presence of captive power plants and limestone mines
APCL sources limestone from its three captive mines, located within 2-8 km radius from the cement plant. Similarly, its subsidiary i.e. BCPL sources limestone from its two captive mines, located adjacent to the plant and within short radial distance. Such backward integration with limestone reserves ensures uninterrupted supply of quality limestone and is expected to provide operational efficiency.
Its captive 16 MW thermal power plant helps meet most of APCL's integrated cement plant requirements while the subsidiary's major portion of power requirements are met from electricity grid. WHRS provided just less than a third of BCPL's power requirements in FY22, however, its closure from Q2FY23 meant limited renewable and cheap power supply in FY23 and nil estimated in FY24. Once WHRS resumes, BCPL's integrated cement plant is expected to get almost one third of its power requirements from it.

Limited external debt vis a vis parent funding: Though, the company may seem to have leveraged capital structure, however, majority of the debt is from the parent company to fund the acquisition of BCPL in the past. Out of the total debt of Rs.464 crore, inter-corporate deposits from the parent company is ₹377 crore as on March 31, 2023. Furthermore, the tangible networth as on March 31, 2023 is ₹19 crore, but this is after adjustment of net goodwill of ₹239 crore. The goodwill was generated after the acquisition of BCPL which was funded largely through ICDs from the ultimate parent company i.e. CCCPL.

Key weaknesses

Weakened operating margins due to vulnerability to demand-supply dynamics as well as volatility in input prices:
The company's operating profitability margin weakened significantly in FY23 to 3.24% from 18.13% in FY22. Accordingly, profit before interest, lease rentals, depreciation and tax (PBILDT) per tonne reduced to ₹142 per tonne in FY23 against ₹782 per tonne in FY22. This was majorly on account of the increased costs particularly with regards to increased power and fuel costs and limited proportional pass-through of costs to consumers. The Russian-Ukraine war had significantly pushed up power & fuel costs and with rising inflation the same could not be passed off fully. Furthermore, the company's 7.2 WHRS which provides cheap captive power to BCPL's integrated cement unit was shutdown to undertake certain modifications which has not been yet restarted. This increased the power cost per tonne. The power and fuel cost increased to ₹2,264 per tonne in FY23 from ₹1,644 per tonne in FY22. The power & fuel cost per tonne was ₹977 in FY21. The decision to restrict the average market radius, particularly in BCPL, led to slight reduction in freight & packaging cost from ₹749 per tonne in FY22 to ₹733 per tonne in FY23. However, the reduced volumes led to lower capacity utilization leading to inefficient apportionment of fixed costs in FY23. Subdued volumes are also partially due to moderation in demand in its area of operations.
Though, coal prices have moderated in FY24, however, they still remain significantly elevated for the company. The company continues to be impacted by modest scale of operations and lower capacity utilization in H1FY24. These were reflected in the company's PBILDT margin of 2.36% in H1FY24. Overall, in FY24, further reduction in fuel cost per tonne may be modest with some improvement in profitability coming from realisation hike in Q3FY24 witnessed in southern India, though its absorption will remain key monitorable. The company's WHRS is currently estimated to re-commission from April 2024, which shall contribute to improved consolidated profitability in APCL over the medium term from the current levels.

Relatively modest size of operations and geographically-concentrated revenue profile: With operational capacity of 2.44 MTPA (APCL – 1.16 MTPA and BCPL – 1.28 MTPA) of cement capacity, the company operates at a modest scale relatively. Since, the company and its subsidiary have manufacturing facilities in Telangana and Andhra Pradesh, significant portion of its revenue is generated from those regions.
In FY23, the company, witnessed dip in cement plus clinker volume sales from 1.86 million tonnes (MT) in FY22 to 1.51 MT, degrowth of 19% on account of subdued demand in its key geographies as well as the company's decision to limit the average market radius, particularly, in BCPL, in light of BCPL's high cost of production. Hence, the company's net sales decreased by 18% in FY23 to ₹661 cr. The underperformance continued in H1FY24, with net sales declining from ₹377 cr in H1FY23 to ₹299 cr in H1FY24. On a full-year basis as well APCL at a consolidated level is expected to report moderate performance in FY24.

Weak debt coverage metrics: Due to significant moderation in profitability and increased debt, the interest coverage and net debt to PBILDT has been significantly weakened in FY23. ICDs are also of interest-bearing nature. Improvement is expected from FY25 onwards only. Comfort can however be derived from the fact that majority of the debt is from the parent entity CCCPL.

Presence in southern India cement market which is characterised with overcapacity
The Southern India cement market is characterised by overcapacity on account of significant limestone reserves and installed cement capacities in southern India vis-à-vis demand. The company has partial presence in southern India leading to moderate capacity utilisation as well as limited ability for passing incremental pricing.

Liquidity: Adequate

APCL is a subsidiary of CCCPL. The liquidity of APCL is adequate as it draws comfort from the liquidity profile of CCCPL which is strong. ACPL is currently not having any term loan from external lenders. Though, the company incurred cash losses in FY23, the company is expected to turn cash profit in FY24 though it will be modest. The working capital limits of APCL were highly utilized at 91% in 12 months through September 2023 and its subsidiary's working capital limits were also highly utilized at 96% during the same period. However, the company's liquidity is supported by significant cash buffer in its parent company i.e. CCCPL.

Liquidity of Parent

CCCPL's strong liquidity is supported by healthy cash and cash equivalents along with significant generation of gross cash accruals (GCA) and moderate bank limit utilisation. The company had generated GCA of ₹345 crore in FY23, significantly moderated from ₹853 crore in FY22. The same is expected to grow to around ₹580-620 crore in FY24 on account of the expected improvement in turnover and profitability margins. The company's repayment obligations in FY24 are of around ₹30 crore and ₹72 crore in FY25 which can be serviced by its internal accruals. However, since the repayment of ₹72 crore is due on April 1, 2024, the company is expected to repay before March 31, 2024. Furthermore, the company has substantial liquid investments to meet its capex requirements along with new debt being raised. The company had free cash and cash equivalents of ₹1,116 crore as on March 31, 2023 and ₹1,118 crore as on September 30, 2023. The company has unutilised working capital limits, and robust capital structure which provides headroom for incremental debt if required.

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

About the company and industrys

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction materials	Cement & Cement products	Cement & Cement products

APCL is part of the Chettinad group and a subsidiary of CCCPL, the group's flagship company. APCL has an integrated cement unit in Suryapet, Telangana at standalone level with installed capacity of 1.2 MTPA (clinker backed capacity of 1.16 MTPA) while its wholly owned subsidiary BCPL has an integrated cement unit in Tangeda, Andhra Pradesh with installed capacity of 1.4 MTPA (clinker backed capacity of 1.28 MTPA) as on December 31, 2023.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	801.26	661.50	299.04
PBILDT	145.28	21.41	7.07
PAT	41.99	-58.50	-28.83
Overall gearing (times)*	NM	NM	NM
Interest coverage (times)	4.97	0.62	0.44

A: Audited UA: Unaudited NM: Not Meaningful; Note: 'the above results are latest financial results available'
Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits and Creditors on LC

Brief Financials (₹ crore) - Standalone	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	470.21	422.18	212.10
PBILDT	97.23	25.07	12.24
PAT	34.97	-18.92	-8.84
Overall gearing (times)*	1.19	0.89	0.91
Interest coverage (times)	3.50	0.88	0.89

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
Please note Overall gearing and Net Debt/PBILDT ratios factor in security deposits and Creditors on LC

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		-	-	-	30.00	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 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	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (06-Jan-23)	1)CARE A1+ (05-Jan-22) 2)CARE A1+ (CW with Developing Implications) (04-Jun-21)	1)CARE A1+ (07-Dec-20)
2	Fund-based - LT-Cash Credit	LT	30.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jan-23)	1)CARE A+; Stable (05-Jan-22) 2)CARE A+ (CW with Developing Implications) (04-Jun-21)	1)CARE A+; Stable (07-Dec-20)

*Long term/Short 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	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure -6: List of subsidiaries which are consolidated

Name of Entity	% Ownership		Relation with APCL
	March 31, 2022	March 31, 2023	
Bhavya Cement Pvt Ltd	99.08%	99.09%	Subsidiary

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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