Keerthi Industries Limited

October 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	44.67 (Reduced from 49.51)	CARE B+; Negative	Downgraded from CARE BB; 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 of further deterioration in operational and financial performance in FY24 and Q1FY25 [FY refers to the period April 01 to March 31] as indicated by decline in capacity utilization, lower than envisaged financial performance for the year with KIL incurring loss at operating level coupled with cash loss, reliance on stretching creditors to meet the debt repayment obligations, deterioration in capital structure, 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, comfortable operating cycle and stable industry outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in TOI above Rs.200 crores while maintaining PBILDT margin at 10%.
- 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 performance of the company is expected to remain subdued in FY25 which is likely to result in continuation of loss at operational level. The outlook may be revised to 'Stable' in case there is an upward revision in selling prices of cement which will enable KIL to improve its overall operational performance and profitability, infusion of unsecured loans from promoters which may result in easing of liquidity position and along with improved debt coverage metrics.

Detailed description of key rating drivers:

Key weaknesses

Deterioration in operational performance in FY24 and Q1FY25: The operational performance of the cement division has remained weak with further deterioration in FY24 and Q1FY25 as compared to FY23, as witnessed by a decrease in capacity utilization to 73.32% in FY24 as against 80.56% in FY23. Further, the capacity utilisation for Q1FY25 stood at ~53%. Revenue derived from the electronic division remained almost similar at Rs.18.49 crore in FY24 (FY23: Rs.18.23 crore). However, revenue from cement division witnessed a decline by about 12.54%. Total production volume in FY24 stood at 0.43 MTPA which is lower by about ~9% in comparison to FY23. Production volume for Q1FY25 stood at 0.08 MTPA. Further, sales realization decreased to Rs.4,445 per MT in FY24 and stood at Rs. 4059 per MT in Q1FY25 (FY23: Rs.4,663 per MT) resulting in decline in revenue from cement segment.

Deterioration in financial profile in FY24 and Q1FY25: During FY24, the revenue from operations decreased by approximately 12% and stood at Rs.212.12 crore as against a revenue of Rs.240.56 crore in FY23, this was mainly due to slowdown in demand from the infrastructure segment in FY24 where KIL operates. Further, coupled with decline in sales, high cost of raw material and the fixed overhead costs resulted in operating loss in FY24. High prices of coal and pet coke was reflected in the power and fuel expenses. KIL reported operating loss of Rs. 3.85 crore in FY24. With high interest and depreciation expenses, net loss widened to Rs. 15.69 crore which is higher than the projected loss.

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

Further, the performance continues to remain subdued in Q1FY25 with TOI of Rs.37.47 crore as compared to Rs. 58.23 crore in Q1FY24 and PBILDT and PAT of Rs. -3.16 crore and Rs. -5.48 crore in Q1FY25 respectively as compared to PBILDT of Rs. 1.07 crore and PAT of Rs. -4.30 crore in Q1FY24.

Deterioration in capital structure: The capital structure of the company marked by overall gearing remained at similar levels at 0.45x as of March 31, 2024 (0.44x as on March 31, 2023). 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. Unsecured loans amounting to Rs. 22.14 crore infused by promoters are considered as quasi equity as they are subordinated to bank debt. The company is servicing its interest and repayment obligations by stretching payments to its creditors. KIL has also received an intercorporate deposit in Q3FY25 amounting to Rs. 1 crore from Hyderabad Bottling Company which is a promoter related entity (currently non-operational). Further, there is an expectation of unsecured loans infusion by the promoters depending on the requirement. Infusion of the above mentioned loans would be key for timely debt servicing.

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 FY23, however, the same has decreased in FY24. 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 fall in FY24. The price reduction in the coal and pet coke prices started reflecting in power and fuel cost per ton for the companies only in FY24 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). 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.

Comfortable operating cycle: The operating cycle of the company improved to 23 days in FY24 (34 days in FY23) despite increase in inventory days to 49 days (45 days in FY23) for maintaining stocks of raw materials and coal. The company has stretched its creditors in order to meet debt repayments on time this resulted in increase of creditors days to 37 days during FY24. Despite the stretch, creditor days continue remain at comfortable level. The collection period remained stable at 11 days to its customers.

Liquidity: Stretched
The liquidity position of KIL stood stretched marked by negative GCA of Rs. -8.71 crore in FY24 as against total repayment obligation of Rs. 6.72 crores in FY25. The company has cash and bank balances of Rs.0.43 crore as on March 31, 2024, and the same stood at Rs. 2.01 crore as of June 30, 2024. Further, the maximum average utilization stood high at 99.85% for the last twelve months ended in August 2024. The company's cash flow from operations stood at Rs.16.38 crore for FY24. The management had indicated that the promoters are committed to infuse funds in case of any exigencies to meet the working capital requirement and debt repayments. The same is also demonstrated by infusion in previous three years. And these unsecured loans are also subordinated to bank debt interest on which will be paid, in case, surplus is available with the company. The company is also in process of liquidating the land (extant: 98 acres) available in the state of Karnataka which would add to their liquidity. However, the specific timelines of the same are not ascertainable.

Assumptions/Covenants: Not applicable

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

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cement

About the company and industry

Industry classification

Macroeconomic 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	240.75	212.24	37.47
PBILDT	-0.18	-3.85	-3.16
PAT	-7.24	-15.69	-5.48
Overall gearing (times)	0.44	0.45	NA
Interest coverage (times)	-0.05	-0.63	-2.06

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE B+; Negative
Fund-based - LT-Term Loan	-	-	-	October 2028	24.67	CARE B+; Negative
Non-fund-based - LT-Bank Guarantee	-	-	-	-	10.00	CARE B+; Negative

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (06-Jan-22)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Negative	1)CARE BB; Negative (04-Jun-24)	1)CARE BB+; Negative (16-Nov-23)	1)CARE BBB-; Negative (02-Feb-23)	1)CARE BBB-; Stable (06-Jan-22)
3	Non-fund-based - LT-Bank Guarantee	LT	10.00	CARE B+; Negative	1)CARE BB; Negative (04-Jun-24)	1)CARE BB+; Negative (16-Nov-23)	1)CARE BBB-; Negative (02-Feb-23)	1)CARE BBB-; Stable (06-Jan-22)
4	Fund-based - LT-Term Loan	LT	24.67	CARE B+; Negative	1)CARE BB; Negative (04-Jun-24)	1)CARE BB+; Negative (16-Nov-23)	1)CARE BBB-; Negative (02-Feb-23)	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:
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