Anjani Portland Cement Limited

January 5, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
(i)Non-Convertible Debenture issue @	**30**	**CARE AA+ (SO); Stable [Double A Plus (Structured obligation); Outlook: Stable]**	**Reaffirmed**
Total instruments	**30 (Rupees Thirty Crore Only)**		
(ii)Long-term Bank Facilities	30	**CARE A; Stable (Single A; Outlook: Stable)**	**Assigned**
(iii)Short-term Bank Facilities	10	**CARE A1 (A One)**	**Assigned**
(iv)Long-term Bank Facilities $	-	**-**	**Withdrawn**
(v)Short- term Bank Facilities $	-	**-**	**Withdrawn**
Total Facilities	**40 (Rupees Forty crore only)**		

Details of instruments/facilities in Annexure-1

@ backed by unconditional and irrevocable corporate guarantee from Chettinad Cement Corporation Private Limited

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities (above (ii) & (iii)) of Anjani Portland Cement Limited (APCL) factors in the experience of promoter in the cement industry, synergies of operation between the parent company Chettinad Cement Corporation Private Limited (CCCPL) and APCL, benefits derived by APCL from being part of chettinad group, integrated nature of operations with presence of captive power plants and limestone mines and comfortable financial risk profile characterized by low leverage levels and comfortable profitability.

The ratings are however, tempered by relatively moderate size of the company, regional concentration risk with majority of sales coming from Andhra Pradesh & Telangana market and risks associated with the cyclical nature of cement industry.

Ability of the company to improve the scale of operations & geographical diversification while maintaining the profitability and capital structure will be the key rating sensitivity.

The rating assigned to the debt instrument [above (i)] of APCL is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee from Chettinad Cement Corporation Private Limited. [CCCPL, Rated 'CARE AA+; Stable', 'CARE A1+'] for the NCD issue of Anjani Portland Cement Limited.

The ratings assigned to CCCPL continue to factor in the established track record of the company in the cement industry with strong brand presence in the states of Kerala and Tamil Nadu (TN), backward linkages with the availability of captive limestone mines and energy-efficient plants with the availability of captive power, strong financial position characterized by low leverage levels & healthy cash accruals and benefits derived from being part of the Chettinad group. The ratings also take into account the increase in geographical diversification of revenue in the past few years subsequent to its entry into Karnataka and Maharashtra. Notwithstanding the same, TN and Kerala continues to be major markets for CCCPL.

The ratings are, however, constrained by limited geographical diversification and moderate capacity utilisation. Going forward, the ability of CCCPL to optimally utilise the manufacturing capacity, increase market share in new as well as existing states while sustaining profitability in a scenario of surplus capacity will be important for the financial prospects of CCCPL. Any improvement in geographical diversification and any major debt-funded capex will be the key rating sensitivity.

$ The rating of 'CARE AA+(SO); Stable/CARE A1+ (SO)' assigned to the Rs 30 cr bank facilities of APCL has been withdrawn with immediate effect as the corporate guarantee from CCCPL has been withdrawn.

Detailed description of the key rating drivers

Key Rating Strengths

Part of Chettinad group of companies

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

APCL is part of the Chennai based Chettinad group which was formed in 1935. Chettinad group has a diversified business with interests in cement, construction, logistics, engineering, education, transportation, hospitals etc. One of the flagship companies of Chettinad Group is Chettinad Cement Corporation Ltd (CCCPL, Rated CARE AA+; Stable/CARE A1+). Other notable companies of the group include Chettinad Logistics Private Ltd (CLPL, Rated CARE A; Stable/ CARE A1), South India Corpn Private Limited (SICPL, Rated CARE A; Stable/ CARE A1) and Chettinad International Coal Terminal Private Limited (CICTL, Rated CARE A-; Stable/CARE A2+).

Demonstrated funding support from the group
Post-acquisition of APCL, the group has extended financial support to replace the old loans. APCL has received support from one of its group companies in the form of inter corporate deposit amounting to Rs.53.39 crore during FY15. As on March 31, 2017 there was Nil outstanding from inter corporate deposit as the company replaced the same with fresh borrowings. Further, CCCPL has extended corporate guarantee to the bank facilities (which is being withdrawn now) and NCD issue of Rs.60 crore (outstanding Rs.30 crore as on December 31, 2017).

Experienced promoter and synergies of operations between CCCPL & APCL
CCCPL, the promoter of APCL was incorporated in the year 1962 and engaged in the manufacturing of cement since 1967 (Commercial operation date). CCCPL has been in operation for five decades, with the company increasing its operational capacity over the past few years. CCCPL has cement manufacturing capacity of 12mtpa as on March 31, 2017 with presence across the southern states. On account of synergy of operations with parent, in addition to management support/guidance. APCL also benefits sourcing & procurement, better terms from suppliers and lenders.

Integrated nature of operations with presence of captive power plants and limestone mines
APCL sources limestone (major raw material which constitutes more than 60% of total raw material cost) from four mines namely Mine 1, Mine 2 , Mine 3 & Mine 4 most of which are situated in within the 2-7 km radius from the plant. During January 2017, APCL commissioned a 16 MW captive thermal power plant (CPP) at a cost of Rs.87 crore using proceeds from rights issue amounting to Rs.75 crore. Post commissioning of the power plant, most of APCL's power requirement is being met through this CPP. Besides providing uninterrupted power supply, the thermal power plant has also brought down the cost of power. Cost per unit of power has come down from Rs.6.26 per unit in FY17 to Rs.5.53 per unit in H1FY18.

Comfortable financial risk profile characterized by low leverage and comfortable profitability
Volume of cement sold increased by 12% to 0.85MMT in FY17 from 0.76MMT in FY16. The net sales realization increased by 1% during FY17. On account of these two factors the net income from sale of cement grew by 13% in FY17. The PBILDT margin during FY17 was 26.89% as against 30.30% in FY16. Overall gearing as on March 31, 2017 stood at 0.33x as against 1.36x as on March 31, 2016. Total debt to GCA during FY17 was 1.09 years as against 2.06 years in FY16.

Key Rating Weaknesses
Relatively moderate size and geographical concentration
APCL is a relatively moderate sized cement player having capacity of 1.16mtpa with major revenue coming from sale in the states of Andhra Pradesh & Telangana. 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 32% sales in FY17 from outside Andhra Pradesh & Telangana.
Sales from Andhra Pradesh (A.P) and Telangana (T.S) market accounted for around 65% of the total sales for the past four years. Since APCL operates its plant based out of T.S it is expected to benefit from the infrastructure push of both the state governments of A.P & T.S.

Analytical approach: Standalone & Guarantors Assessment

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings
CARE's methodology for cement manufacturing companies

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 12, 2014, Chettinad Cement Corporation Limited entered into a share purchase agreement (SPA) with the promoter of APCL and acquired 75% of the total shares of APCL.

APCL is engaged in manufacturing of Ordinary Portland Cement (OPC) 53 grade & 43 grade and Pozzolona Portland cement (PPC) with the product mix of OPC: PPC in the ratio of about 74:26. As on March 31, 2017, the installed capacity of APCL stood at 11,60,000 TPA at its existing manufacturing facility established in Suryapet district of Telangana. APCL sells its cement under the brand name of “Anjani Super Gold” and has a dealer network of around 500 with presence across all the five southern states. It is to be noted that around 60% of APCL’s sales is through dealers and the remaining 40% sales is made to corporate clients.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	274	311
PBILDT	83	84
PAT	19	45
Overall gearing (times)	1.36	0.33
Interest coverage (times)	5.24	8.86

A: Audited

About guarantor CCCPL

CCCPL (CIN no.: U93090TN1962PLC004947) incorporated in 1962 and belongs 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, hospitals and other businesses. CCCPL manufactures four types of cement: Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), Sulphate Resistant Portland Cement (SRC-PC) and Portland Slag Cement (PSC). CCCPL’s client profile consists of three discrete segments namely trade (retail sales through dealers), corporate (institutional sales) and State Government organization. As on March 31, 2017, shareholding of promoters in CCCPL stood at 97.23%.

CCCPL owns and operates five cement manufacturing units with an aggregate installed capacity of 12 MTPA (million tonnes per annum) as on March 31, 2017.

The company also has captive coal based power plants with an aggregate capacity of 165 MW of power generation as on March 31, 2017. These plants in addition to meeting CCCPL's own requirement also sell surplus power to third parties/discoms of respective states. CCCPL sells its cement under the brand name ”Builders Choice” and has a dealer network of around 7,000 with presence across the southern states and Maharashtra. It is to be noted that around 58% of CCCPL’s sales is through dealers and the remaining 42% of the sales is made to corporate clients.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,450	2,488
PBILDT	829	826
PAT	460	467
Overall gearing (times)	0.19	0.13
Interest coverage (times)	170.61	220.89

A-Audited

Detailed Rationale of CCCPL can be found at www.careratings.com

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE A; Stable
Debentures-Non Convertible Debentures	November 2014	10%	April 2018	30.00	CARE AA+ (SO); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (11-Nov-14)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Nov-14)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (11-Nov-14)
4.	Debentures-Non Convertible Debentures	LT	30.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (05-Dec-16)	1)CARE AA (SO) (23-Dec-15)	1)CARE AA- (SO) (21-Nov-14) 2)CARE AA- (SO) (In Principle) (11-Nov-14)
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Dec-16)	1)CARE AA (SO) (23-Dec-15)	1)CARE AA- (SO) (11-Nov-14)

6.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (23-Dec-15)	1)CARE AA- (SO) (In Principle) (11-Nov-14)
7.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (SO) (05-Dec-16)	1)CARE A1+ (SO) (23-Dec-15)	1)CARE A1+ (SO) (11-Nov-14)
8.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE AA+ (SO); Stable (05-Dec-16)	1)CARE AA (SO) (23-Dec-15)	1)CARE AA- (SO) (11-Nov-14)
9.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	-	-	-
10.	Fund-based - LT-Cash Credit	LT	30.00	CARE A; Stable	-	-	-	-

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