Anjani Portland Cement Limited

December 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	30.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook: Stable)**
Short term Bank Facilities	10.00	**CARE A1+ (A One Plus)**	**Revised from CARE A1 (A One)**
Total Facilities	**40.00 (Rs. Forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Anjani Portland Cement Limited (APCL) takes into account the improvement in the financial position of the company in the last three years ended March 2020 marked by relatively stable cash accruals and continuous improvement in capital structure.

The ratings continue to derive strength from the experience of the promoter in the cement industry, synergies of operation between APCL and the parent company Chettinad Cement Corporation Private Limited (CCCL, rated 'CARE AA+; Stable/ CARE A1+'), integrated nature of operations with presence of captive power plant & limestone mines and comfortable financial risk profile. The ratings also factor in benefits derived by APCL from being part of Chettinad group.

The ratings are however, constrained by relatively moderate size of the company, regional concentration risk with majority of sales coming from Andhra Pradesh and Telangana markets, exposure to volatility in input costs especially coal and its presence in a competitive and cyclical cement industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in the scale of operations and geographical diversification on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant deterioration in the financial and operational performance on a sustained basis.
- Any large debt funded capex leading to significant weakening of the capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Part of Chettinad group of companies – demonstrated support from group entities

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, healthcare and other businesses. One of the flagship companies of the Chettinad Group is Chettinad Cement Corporation Pvt Ltd (CCCL, rated 'CARE AA+; Stable/ CARE A1+'), is the holding company of APCL. Other notable companies of the group include South India Corporation Private Limited (SICPL, rated 'CARE A; Stable/CARE A1') and Chettinad Logistics Private Limited (CLPL, rated 'CARE A; Stable/CARE A1'). In the past, APCL has received support from its group entities in the form of Inter Corporate Deposits (ICD) and corporate guarantee to its bank facilities from CCCL.

Experienced promoter and synergies of operations between CCCL and APCL

CCCL, the promoter of APCL, was incorporated in the year 1962 and has been in operation for more than five decades with presence across all five southern states and Maharashtra. CCCL owns and operates six cement manufacturing plants with an aggregate installed capacity of 15.5 MTPA (million tons per annum) as on March 31, 2020. CCCL holds 75% stake in APCL and both the companies are in similar line of business. APCL majorly operates in Andhra Pradesh and Telangana, which provides geographic diversification benefits for the holding company CCCL.

With capacity utilization of APCL reaching close to 90% (85% in FY19) and with a view to build one more brand at the group level, APCL started trading of cement since July 2018; wherein, APCL procures cement from CCCL and sells it under "Anjani" brand in Tamil Nadu and Kerala. It is worthwhile to note that in respect of these sales, APCL is adding distributors/dealers on its own and not through CCCL. Similarly, CCCL also procures cement manufactured from APCL and sells it on its own brand

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

name in the states of Andhra Pradesh and Telangana. In addition to trading and management guidance from the promoter, APCL also benefits better terms from suppliers and lenders as being part of Chettinad group.

Integrated nature of operations with presence of captive power plants and limestone mines

APCL sources limestone (major raw material which constitutes nearly 60% of total raw material cost) from its three captive mines, located within 2-8 km radius from the cement plant. Such backward integration with limestone reserves ensures uninterrupted supply of quality limestone and is expected to provide operational efficiency.

In January 2017, APCL commissioned a 16 MW captive thermal power plant (CPP), with most of APCL's power requirement being met through this CPP. Around 95% of the company's total power requirement during FY20 was met from CPP. The presence of captive power capacity has enabled the company to be self-sufficient to cater to its power requirements.

Comfortable financial risk profile characterized by nil bank debt

The company has exhibited continuous improvement in the capital structure during the last 3 years ended March 31, 2020. Overall gearing improved from 0.33x as on March 31, 2017 to 0.01x as on March 31, 2020. Since March 31, 2019, the company has nil long-term borrowings from banks and only occasional utilization of its working capital limits. As on March 31, 2020, long-term debt stood in the form of lease liabilities of Rs.2 crore. Similarly, the company's debt metrics and coverage indicators have improved continuously in the last 3 years. Total debt/GCA improved from 0.76 years for FY18 to 0.03 years for FY20, while interest coverage improved from 9.66x in FY18 to 440.00x in FY20. The company has sufficient gearing headroom and financial flexibility, to raise debt for any capex plans.

Continuous improvement in the financial position of the company for past three years ended March 2020 and relatively stable cash accruals

The company's capacity utilization decreased to 72% in FY20 against 85% in FY19 due to decline in sales volumes in Andhra Pradesh, its largest market. From cement manufactured, APCL's net sales value declined 16% y-o-y to Rs.311 crore in FY20 from Rs.368 crore in FY19, due to decrease in volumes. For FY20, sales volume declined 16% y-o-y to 0.83 million tonnes from 0.98 million tonnes in FY19. The net cement sales realization (after freight costs) improved 6% y-o-y. From cement trading, the company's sales volume increased 26% y-o-y to 0.22 million tonnes in FY20.

During FY20, APCL reported PAT of Rs.40 crore on a total income of Rs.413 crore as against PAT of Rs.23 crore on a total income of Rs.438 crore for FY19. Overall sales volume (manufactured + traded) of the company decreased 9% y-o-y to 1.05 million tonnes from 1.16 million tonnes in FY19. PBILDT margin of the company has improved to 20.26% in FY20 against 16.72% in FY18, driven by higher realization on traded cement and decrease in freight costs. PAT margin has improved from 6.49% in FY18 to 9.78% in FY20, driven by increase in operating profitability and decrease in interest expenses.

For H1FY21, APCL recorded PAT of Rs.40 crore (H1FY20: Rs.26 crore) on total income of Rs.175 crore (H1FY20: Rs.216 crore). Profitability improved during H1FY21 driven by increase in sales realization and lower coal & freight expenses, as PBILDT margin and PAT margin stood at 31.30% (H1FY20: 23.26%) and 22.62% (H1FY20: 12.03%), respectively.

Covid-19 impact:

On account of Covid-19 lockdowns imposed by the GoI and the state government, the company had temporarily suspended operations at its cement plant (in Telangana) between March 23, 2020 to April 29, 2020. The company had negligible sales during April 2020 month and the sales gradually picked up from May 2020 onwards with easing of lockdown restrictions.

Key Rating Weakness

Relatively moderate size and geographical concentration

APCL is a relatively moderate-sized cement player having capacity of 1.16 MTPA with major revenue coming from sale in the states of Andhra Pradesh (AP) and Telangana (TS). 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 29% of sales dispatches in FY20 from outside AP and TS. Sales from AP and TS markets continue to account over 70% of the total sales, driven by the infrastructure push from both the state governments. However, with trading of cement from Q2FY19 onwards, the company has registered incremental sales in other states (Tamil Nadu & Kerala).

Exposure to volatility in coal costs

APCL has dependence on coal, which is sourced from both domestic market and imported, thereby, exposing the company to any adverse volatility in the prices of coal.

Cyclicality of the cement industry

Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. Due to this cyclicality, the company remains exposed to risks associated with the same. India is the second largest cement market in the world with installed capacity of ~545 MMTPA as of FY20. During FY20, cement production fell by 0.8% as compared with the robust 13.3% growth achieved during FY19. During FY20, weakness in housing demand, prolonged rains in many parts of the country and decline in demand from the infrastructure segment due to lack of funding and halting/ temporary stoppage of state projects following change in government post state elections had a negative bearing on the production of cement in the domestic markets. Further with the outbreak of the Covid-19 pandemic in the Indian sub-continent which forced the government to announce a nation-wide lockdown, 25th March 2020 onwards also affected the domestic cement production during FY20 and during current year. Cement production has fallen by 25.1% during H1FY21. The macros of the cement industry seem strong in the long term even though now it is riddled with the COVID-19 pandemic and issues associated with it. The industry could benefit with the pent up demand phenomena as the economy has been on an unlock mode but on the flipside as the second wave of the contagion is hitting the economy, this could be a detriment to the entire demand-supply of the industry.

Liquidity: Strong

Liquidity is marked by healthy accruals against nil bank term obligations for FY21. Current lease obligations for FY21 stand at Rs.0.42 crore. Further, the company's total cash & bank balance (lien-free) stood at Rs.107.81 crore as on September 30, 2020 (with majority being in the form of term deposits with banks), as against Rs.25.55 crore as on March 31, 2019 and Rs.65.39 crore as on March 31, 2020. The company has sanctioned working capital limit of Rs.30 crore and the utilization has remained negligible with average utilization of ~0.77% for the past 12 months ended September 2020.

Analytical approach:

Standalone and also factoring in linkages with its holding company Chettinad Cement Corporation Pvt Ltd, which has cement production capacity of 15.5 MTPA with presence across southern region.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Factoring Linkages Parent Sub JV Group
Financial ratios - Non-Financial Sector
Rating Methodology - Manufacturing Companies
Rating Methodology - Cement industry

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 2014, Chettinad Cement Corporation Private Limited (CCCL) acquired 75% of the total shares of APCL. APCL manufactures three types of cement: Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC) and Composite Cement (CC). During FY20, OPC (43 & 53 grade) accounted for around 78% of the total sales followed by PPC (14%) and CC (8%). As on March 31, 2020, the installed capacity of APCL stood at 11,60,000 TPA in its manufacturing facility at Suryapet district of Telangana. The company also has captive thermal power plant with an aggregate capacity of 16 MW as on March 31, 2020. APCL sells its cement under the brand name of "Anjani" and has a dealer network of around 1,500 with presence across the southern states. From Q2FY19, APCL has also started trading of cement.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	438	413
PBILDT	57	84
PAT	23	40
Overall gearing (times)	0.00	0.01
Interest coverage (times)	33.55	440.00

A: Audited;

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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	-	-	-	-	10.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	30.00	CARE A+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (01-Jun-18)	1)CARE AA+ (SO); Stable (05-Jan-18)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (05-Jan-18)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (05-Jan-18)
4.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1 (26-Dec-19)	1)CARE A1 (14-Dec-18) 2)CARE A1 (01-Jun-18)	1)CARE A1 (05-Jan-18)
5.	Fund-based - LT-Cash Credit	LT	30.00	CARE A+; Stable	-	1)CARE A; Stable (26-Dec-19)	1)CARE A; Stable (14-Dec-18) 2)CARE A; Stable (01-Jun-18)	1)CARE A; Stable (05-Jan-18)
6.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)Withdrawn (26-Dec-19)	1)CARE A1 (14-Dec-18)	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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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