Anjani Portland Cement Limited

December 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	30.00	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	20.00 (enhanced from 10.00)	**CARE A1 (A One)**	**Reaffirmed**
Total Facilities	**50.00 (Rupees fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Anjani Portland Cement Limited (APCL) factor in the experience of 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+), benefits derived by APCL from being part of Chettinad group, integrated nature of operations with presence of captive power plant & limestone mines and comfortable financial risk profile characterized by low leverage levels. 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, which also impacted its profitability during FY18 and risks associated with the competitive and cyclical nature of cement industry.

Going forward, ability of APCL to improve the scale of operations, geographical diversification along with maintaining the profitability and capital structure will be the key rating sensitivities.

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 Chettinad group is Chettinad Cement Corporation Private Limited (CCCL, rated CARE AA+; Stable/CARE A1+), being the holding company of APCL. Other notable companies of the group include Chettinad Logistics Private Limited (CLPL, CARE A; Stable/ CARE A1), South India Corporation Private Limited (SICPL, CARE A; Stable/ CARE A1) and Chettinad International Coal Terminal Private Limited. 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. Besides the financial support extended by the group, APCL's imported coal requirement is sourced through its group companies SICPL and CLPL.

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 has installed capacity of 12 MMTPA (million metric tons per annum) as on March 31, 2018. The top management of CCCL comprises of experienced and qualified professionals with most of them being associated with the company for a long period.

With capacity utilization of APCL reaching close to 90% (87% in H1FY19) and with a view to build one more brand at the group level, APCL has started trading activities since July 2018. Wherein, APCL procures cement from CCCL and sells it under "Anjani" brand in Tamil Nadu, South Karnataka 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.

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 50% of total raw material cost) from its four captive mines, located within 2-7 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

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

requirement being met through this CPP. Besides providing uninterrupted power supply, the thermal power plant has also brought down the cost of power as around 92% of the company's power consumption was met through CPP in FY18.

Comfortable financial risk profile characterized by low leverage levels
Overall gearing as on March 31, 2018 stood at 0.16x as against 0.33x as on March 31, 2017, with further improvement to 0.08x as on September 30, 2018. Total debt to GCA during FY18 was 0.76 years as against 1.09 years in FY17. The improvement in the overall gearing levels was on account of complete redemption of NCD amounting Rs.60 crore in Q3FY18 and Q1FY19. As on 30 September 2018, APCL's outstanding debt was Rs.18 crore. The coverage indicator remained comfortable with interest coverage at 9.71 times in FY18, with further improvement to 21.20 times in H1FY19.

Liquidity position
The total cash & bank balance stood at Rs.11 crore as on March 31, 2018 and Rs.6 crore as on September 30, 2018. The company has sanctioned working capital limit of Rs.30 crore. In the past 12 months period ended October 2018, average cash credit utilization was 38%. In FY18, APCL's average collection period stood at 20 days, while its average creditors period improved to 25 days.

Improved capacity utilization and moderation in operating profit margins on account of increase in input costs during FY18 and H1FY19
The company's capacity utilization improved to 79% in FY18 against 73% in FY17, driven by increased sales in Telangana. It further improved to 87% in H1FY19. Sales volume increased 9.0% to 0.93 MMT in FY18 from 0.85 MMT in FY17. APCL achieved net sales (excluding excise duty & GST) growth of 16.2% y-o-y from Rs.309 crore in FY17 to Rs.359 crore in FY18, driven by volume growth. It is to be noted that net sales of FY17 and FY18 are not comparable, as APCL has started accounting sales on FOR basis from FY18 onwards as against Ex-works basis earlier. The net cement sales realization (after excluding freight costs) declined by 5.5% y-o-y in FY18.
During FY18, PBILDT margin declined to 16.72% (PY: 26.89%), impacted by rise in input costs and decrease in sales realizations. In FY18, raw materials costs per ton increased 4.9% y-o-y, while power & fuel expenses per ton escalated 11.3% y-o-y. The increase in power and fuel cost was on account of substantial increase in coal prices, as the average landed cost of imported coal for APCL during FY18 increased by 22% y-o-y to Rs.6,563/ton as against Rs.5,401/ton in FY17.
During H1FY19, APCL recorded PAT of Rs.9 crore on total operating income of Rs.208 crore, backed by sales volume of 0.5 MMT. PBILDT margin further moderated to 12.11% due to decline in net cement sales realization and increase in power & fuel costs during the period.

Outlook on 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. The cement production is expected grow by 5.5-6.5% during FY19, with increased demand from housing and real estate segment. In southern regions, growing demand from Andhra Pradesh and Telengana, boosted by significant investments in infrastructure would drive the overall market.

Key Rating weaknesses
Relatively moderate size and geographical concentration
APCL is a relatively moderate sized cement player having capacity of 1.16 MMTPA 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 27% of sales in FY18 (PY: 32%) 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 intends to increase share of its sales from other markets as well.

Exposure to volatility in coal costs
Although major share of APCL's coal requirement is sourced through some of its group companies, it is exposed to any adverse volatility in the price of imported coal. Also, with the coal prices been on an increasing trend during the last year, the ability of the company to manage costs and maintain margins remain crucial.

Analytical approach: Standalone and factoring in linkage with its holding company CCCL, which has cement production capacity of 12 MMTPA with presence across southern region.

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
CARE's methodology for cement manufacturing companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

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 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 FY18, OPC (43 & 53 grade) accounted for around 71% of the total production followed by PPC (25%) and CC (3%). As on March 31, 2018, the installed capacity of APCL stood at 11,60,000 TPA at 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, 2018.
APCL sells its cement under the brand name of "Anjani" and has a dealer network presence across all the 5 southern states and Maharashtra. It is to be noted that around 65% of APCL's sales is to institutional clients and the remaining 35% sales is made through dealers. From Q2FY19, APCL has also started trading of cement.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	311	361
PBILDT	84	60
PAT	45	23
Overall gearing (times)	0.33	0.16
Interest coverage (times)	8.86	9.66

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
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	-	-	-	10.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE A; Stable
Fund-based - ST-Working Capital Demand loan	-	-	April 2019	10.00	CARE A1

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (01-Jun-18)	1)CARE AA+ (SO); Stable (05-Jan-18)	1)CARE AA+ (SO); Stable (05-Dec-16)	1)CARE AA (SO) (23-Dec-15)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (05-Dec-16)	1)CARE AA (SO) (23-Dec-15)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (23-Dec-15)
4.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (05-Jan-18)	1)CARE A1+ (SO) (05-Dec-16)	1)CARE A1+ (SO) (23-Dec-15)
5.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (05-Jan-18)	1)CARE AA+ (SO); Stable (05-Dec-16)	1)CARE AA (SO) (23-Dec-15)
6.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	1)CARE A1 (01-Jun-18)	1)CARE A1 (05-Jan-18)	-	-
7.	Fund-based - LT-Cash Credit	LT	30.00	CARE A; Stable	1)CARE A; Stable (01-Jun-18)	1)CARE A; Stable (05-Jan-18)	-	-
8.	Fund-based - ST-Working Capital Demand loan	ST	10.00	CARE A1	-	-	-	-

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