# Anjani Portland Cement Limited

December 26, 2019

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Long-term Bank Facilities | 30 | **CARE A; Stable (Single A; Outlook: Stable)** | **Reaffirmed** |
| Short-term Bank Facilities-Non Fund Based | 10 | **CARE A1 (A One)** | **Reaffirmed** |
| Short-term Bank Facilities- Fund Based^ | - | - | **Withdrawn** |
| **Total Facilities** | **40 (Rupees Forty 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) 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 as reflected in nil term debt and low leverage levels. 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.

^CARE has withdrawn the rating assigned to the short-term bank facilities (working capital demand loan) of APCL with immediate effect, as the company has repaid the aforementioned bank facilities rated by us in full and there is no amount outstanding under the facility as on date.

**Rating Sensitivities**

**Positive Factors**

- Improvement in the scale of operations and geographical diversification on a sustained basis.
- Improvement in the profitability of the company from the levels of profit margins reported in FY19.

**Negative Factors**

- Significant deterioration in the financial and operational performance on a sustained basis.
- Any 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+'), being the holding company of APCL. 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 14 MTPA (million tons per annum) as on March 31, 2019. 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% (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.

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.

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

**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 three 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 requirement being met through this CPP. Around 97% of the company's total power requirement during FY19 was met from CPP. The presence of captive power capacity has enabled the company to be self-sufficient to cater to the power requirements.

**Comfortable financial risk profile**
The company is debt-free as on March 31, 2019, as well as on September 30, 2019, as term debt and working capital borrowings were nil. The company's interest coverage ratio has improved to 33.55x for FY19 as against 9.66x in FY18. The company has sufficient gearing headroom and financial flexibility, to raise additional debt for any capex plans.

**Moderation in operating profit margin on account of increase in input costs during FY19; however improvement in H1FY20 driven by increase in realization**
The company's capacity utilization improved to 85% in FY19 against 79% in FY18, driven by increased sales in Andhra Pradesh and Telangana. From cement manufacturing, APCL achieved net sales value growth of 2.4% y-o-y to Rs.368 crore in FY19 from Rs.359 crore in FY18, driven by volume growth offset by decline in realizations. For FY19, sales volume increased 5.9% y-o-y, while the net cement sales realization (after excluding freight costs) declined by 5.2% y-o-y. From cement trading, the company achieved sales of Rs.64 crore during FY19.
During FY19, APCL reported PAT of Rs.23 crore on a total income of Rs.438 crore as against PAT of Rs.23 crore on a total income of Rs.361 crore for FY18. Revenue of the company increased primarily due to the initiation of trading activity. For FY19, PBILDT margin declined to 13.02% against 16.72% during FY18 and PAT margin stood at 5.29% as against 6.49% during FY18. Moderation in margin was on account of decrease in the sales realization and increase in coal prices during the period.
During H1FY20, APCL recorded PAT of Rs.26 crore (H1FY19: Rs.9 crore) on total income of Rs.216 crore (H1FY19: Rs.208 crore). Profitability improved during H1FY20 driven by increase in sales realization and lower coal prices, as PBILDT margin and PAT margin stood at 23.26% and 12.03%, respectively.

**Key Rating Weaknesses**
**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 28% of sales dispatches in FY19 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. For FY20, the cement production is expected to remain steady with total production expected to grow by 5-7%. Roads, urban infrastructure and commercial realty would continue to be the key demand drivers for cement. Southern and Eastern Regions would continue to be major regional demand drivers.

**Liquidity: Strong**
Liquidity is marked by healthy accruals against nil repayment obligations for FY20. Total cash & bank balance (lien-free) stood at Rs.36 crore as on September 30, 2019, against Rs.25 crore as on March 31, 2019. The company has sanctioned working capital limit of Rs.30 crore and the utilization has remained low with average utilization of ~10.08% for the past 12-month period ended September 2019. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

**Analytical approach:** Standalone and also factoring in linkages with its holding company Chettinad Cement Corporation Pvt Ltd, which has cement production capacity of 14 MTPA with presence across southern region.

**Applicable Criteria**
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Short Term Instruments
Rating Methodology - Manufacturing companies
Rating Methodology - Cement Industry
Financial ratios (Non-Financial Sector)
Rating Methodology: Consolidation and 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 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 FY19, OPC (43 & 53 grade) accounted for around 73% of the total sales followed by PPC (18%) and CC (8%). As on March 31, 2019, 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, 2019. 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. cr) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 361 | 438 |
| PBILDT | 60 | 57 |
| PAT | 23 | 23 |
| Overall gearing (times) | 0.16 | - |
| Interest coverage (times) | 9.66 | 33.55 |

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 | 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 | - | - | - | 0.00 | Withdrawn |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 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) |
| 2. | Fund-based - LT-Term Loan | LT | - | - | - | - | - | 1)Withdrawn (05-Dec-16) |
| 3. | Non-fund-based - ST-BG/LC | ST | - | - | - | - | 1)Withdrawn (05-Jan-18) | 1)CARE A1+ (SO) (05-Dec-16) |
| 4. | Fund-based - LT-Cash Credit | LT | - | - | - | - | 1)Withdrawn (05-Jan-18) | 1)CARE AA+ (SO); Stable (05-Dec-16) |
| 5. | Non-fund-based - ST-BG/LC | ST | 10.00 | CARE A1 | - | 1)CARE A1 (14-Dec-18) 2)CARE A1 (01-Jun-18) | 1)CARE A1 (05-Jan-18) | - |
| 6. | Fund-based - LT-Cash Credit | LT | 30.00 | CARE A; Stable | - | 1)CARE A; Stable (14-Dec-18) 2)CARE A; Stable (01-Jun-18) | 1)CARE A; Stable (05-Jan-18) | - |
| 7. | Fund-based - ST-Working Capital Demand loan | ST | - | - | - | 1)CARE A1 (14-Dec-18) | - | - |

**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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