Keerthi Industries Limited

February 18, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	21.08	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Revised from CARE BBB-; Stable(Triple B Minus; Outlook: Stable)**
Total Facilities	**21.08 (Rupees Twenty One crore and eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating of the bank facilities of Keerthi Industries Limited (KIL) continue to draw strength from experienced and resourceful management with established track record in the cement industry, adequate availability of raw materials, satisfactory operational performance of cement division during FY18 (FY refers to the period from April 01 to March 31) albeit decline during H1FY19, satisfactory debt coverage indicators, moderate liquidity position and stable demand outlook of cement in the Southern region. The ratings also factor in financial support from promoters by way of infusion of unsecured loans by promoters during FY18 and H1FY19 in order to support the company's operations including debt servicing, moderate capital structure which further improvement as on March 31, 2018. The rating is, however, constrained by KIL being a medium sized player in the cement industry subject to geographical concentration risk, vulnerability to volatility in raw material prices and presence in an industry characterized by intense competition. The ratings also take cognizance of decline in the financial performance during FY18. The ability of the company to increase its scale of operations thereby, improving its operating margin in light of increasing input prices would be the key rating sensitivities.

Outlook: Negative

The negative outlook on rating reflects the likelihood of weakening of KIL's credit metrics during FY19 due to further deterioration in financial performance during Q3FY19 wherein the company registered cash losses at the back of increased costs coupled with lower realizations. The outlook may be revised to 'Stable' if the company is able to demonstrate improvement in its key operational performance indicators and credit profile while maintaining its capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful management with established track record in the cement industry: KIL is currently headed by Mr. J S Rao (Managing Director) and Mrs. J Triveni (Executive Chairperson) who have more than two decades of experience in the cement industry. KIL initially started its operations with a cement manufacturing plant with an installed capacity of 297,000 TPA (Tonnes per Annum) which over a period of time has expanded to 594,000 TPA. The Promoters' industry experience and established relationships with clients has augured well for the company in terms of procuring contracts from a reputed clientele.

Financial support from promoters: The company is financially backed by its promoters who have infused Rs. 12.61 crore during FY18 and further Rs. 1.75 crore during October 2018 in the form of Inter-corporate deposits/loans to facilitate debt servicing and support the company's operations.

Satisfactory operational performance for cement division albeit marginal decline in capacity utilization levels during H1FY19: The operational performance of the cement division of the company remained satisfactory during FY18. The capacity utilization level was comfortable at 80.75% during FY18 (81.76% during FY17). The company has started selling cement on F.O.R (Freight on Road) basis from July 2017 onwards as against ex-factory rates till June 2017 which has resulted in improved realisations. Average cement realisations during FY18 was at Rs. 4753.69/MT (Rs. 238/bag) vis-à-vis Rs. 4390.58/MT (Rs. 264/bag) during FY17. For H1FY19, the operational performance deteriorated and the capacity utilisation level for cement division stood at 76.94%. The realization from the cement division also declined from Rs. 4834.89/ MT during H1FY18 to Rs. 4688.32/ MT during H1FY19 due to relatively low cement prices in south India owing to excess capacities.

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

Moderate capital structure and satisfactory debt coverage indicators: The company's capital structure marked by the overall gearing continues to remain satisfactory and has improved from 1.36x as on March 31, 2017 to 1.11x as on March 31, 2018 primarily on account of accretion of profits to networth coupled with scheduled repayment of term loans and redemption of preference share capital. Further, the debt protection metrics marked by the TDGCA and interest coverage ratio remained moderate albeit deterioration at 3.03x and 4.88x respectively for FY18.

Adequate availability of key raw materials with presence of limestone mines: KIL sources limestone (major raw material) from its allocated two mines which are situated within a 2-7 km radius from the plant. The company has adequate supply of limestone in place.

Moderate liquidity position backed by moderate operating cycle with marginal deterioration in inventory days: KIL enjoys moderate liquidity position. As on March 31, 2018, the company had cash and bank balance of Rs. 7.52 crore. The average working capital utilization for the company was comfortable at around 57.29% for the 12 months ended in September 2018. The operating cycle of the company was moderate despite deterioration at 24 days for FY18 vis-à-vis 19 days for FY17. This was primarily on account of deterioration in inventory days from 48 days in FY17 to 54 days in FY18, predominantly for maintaining stocks of raw material and coal.

Stable demand outlook of cement in Southern region: The outlook of cement demand stays stable given governments focus on infrastructure and affordable housing and increased political stability which can drive further reforms. During FY19, growth in the cement sector is estimated at around 5.5-6.5% backed by growth in irrigation and real estate projects. The cement production is expected to cross 310 million tonnes during FY19 and utilization in cement capacity across regions is expected to improve during the year to around 67%.

Key Rating Weaknesses

Further decline in financial performance during Q3FY19: During Q3FY19, the company registered net loss to the tune of Rs. 3.86 crore and cash loss to the tune of Rs. 1.22 crore on a TOI of Rs. 41.57 crore. The operating margin declined significantly during the quarter. Further, during 9MFY19, the company registered a TOI of Rs. 130.48 crore, a y-o-y decline of 11% over 9MFY18. The PBILDT margin also declined significantly during 9MFY19 due to increase in operating costs especially power and fuel coupled with decrease in sales realization from cement subject to intense competition. As fuel and coal prices continue to remain on the higher side, the PBILDT margin declined significantly during Q3FY19 vis-à-vis Q3FY18 and Q2FY19 by 1112 bps and 390 bps respectively to 0.07% from 11.19% and 3.97% respectively. The company reported GCA of Rs. 2.64 crore during 9MFY19.

Decline in financial performance during FY18: KIL generates nearly 96% of its revenue from the cement division, with less than 5% being accounted for by the sale of PCBs and wind power. The company's financial performance has deteriorated during FY18 over FY17 with Total Operating Income (TOI) marginally decreasing by 2.47% to Rs. 195.15 crore in FY18. The decline in TOI was primarily on account of slow pick-up in demand for cement due to sluggish growth of the infrastructure and real estate sector. The PBILDT margin has declined by 220 bps from 16.35% during FY17 to 14.15% during FY18 due to increase in operational costs primarily owing to increase in diesel prices and prices of coal during FY18. The PAT margin also decreased in FY18 on account of decline in PBILDT coupled with increased capital charge. KIL registered PAT of Rs. 7.95 crore during FY18 vis-à-vis Rs. 11.39 crore during FY17.

During H1FY19, the company registered a TOI of Rs. 88.91 crore, a y-o-y decline of 12.36% over H1FY18 due to decline in sales volume. The PBILDT margin declined significantly during H1FY19 due to increase in operating costs especially power and fuel coupled with decrease in sales realization from cement subject to intense competition.

Medium player in the industry subject to geographical concentration risk: KIL is a relatively medium sized cement player with an installed cement capacity of 5.94 lakh TPA and clinker capacity of 5.28 lakh TPA. The company recorded TOI of Rs. 195.15 crore for FY18 on a networth base of Rs. 56.61 crore as on March 31, 2018. Moreover, the company is subject to geographic concentration risk since it predominantly markets its products in the southern states of Andhra Pradesh and Telangana.

Vulnerability to volatility in raw material prices: The major cost drivers for KIL are power, freight cost and raw material cost (limestone, fly ash, gypsum and laterite) which accounted for nearly 79.19% of the total cost of sales during FY18 (65.99% of the total cost of sales during FY17). Coal accounts for a majority of KIL's power and fuel needs, which is procured domestically as well as imported from South Africa. For KIL, the coal prices increased by 16% during FY18 vis-à-vis FY17. The cost of power purchased also increased during FY18 vis-à-vis FY17. The company's PBILDT margin has been impacted during FY18 primarily due to increase in prices of power and fuel during the year.

Intense competition in the industry: The company belongs to a highly fragmented, cyclical and competitive industry with the presence of many medium and large established players, thereby limiting the pricing power of small players like KIL which are exposed to competition induced pressures on profitability.

Analytical approach: Standalone
Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Rating Methodology - Cement Industry
Financial ratios – Non-Financial Sector

About the Company
Keerthi Industries Limited (KIL) was incorporated as Suvarna Cements Limited by Late Mr. J S Krishna Murthy in May 1982. Later in the year 2000, Mrs. J Triveni (Executive Chairperson) and Mr. J S Rao (Managing Director & CFO) took over the company. KIL is engaged in manufacturing of specialized cement of 43 & 53 grades i.e. Ordinary Portland Cement (OPC) and Pozzolona Portland Cement (PPC). The manufacturing facility of cement has an installed capacity of 594,000 tonnes per annum (TPA) and the unit is located at Nalgonda district of Telangana. KIL sells cement under the brand name 'Suvarna Cements'. In 2005, the company had diversified into wind energy and electronics and the name was also changed to Keerthi Industries Ltd. During 2006-07, KIL had set up a wind power project with installed capacity 1.5 MW located at Hassan District of Karnataka. The wind power division of KIL is operated and maintained by Suzlon Energy Limited. During 2010, Hyderabad Flextech Ltd (HFL), one of the group companies, was merged with KIL. HFL, incorporated in December 1992 as 100% Export Oriented Unit (EOU) (under Electronic Hardware Technology Park Scheme), is engaged in manufacturing of Printed Circuit Boards (PCB) under electronics division of KIL. The plant is located at Balanagar, Hyderabad, Telangana.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Operating Income	192.88	195.15
PBILDT	33.05	27.61
PAT	13.32	7.95
Overall Gearing (times)	1.16	1.11
Interest Coverage (times)	6.70	4.88

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
Fund-based - LT-Term Loan	-	-	June, 2021	10.58	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BBB-; Negative
Non-fund-based - LT-Bank Guarantees	-	-	-	3.50	CARE BBB-; Negative

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.	Fund-based - LT-Term Loan	LT	10.58	CARE BBB-; Negative	1)CARE BBB-; Stable (24-Dec-18)	1)CARE BBB-; Stable (28-Mar-18)	1)CARE BBB-; Stable (10-Jan-17) 2)CARE BBB- (09-Aug-16)	1)CARE BB- (23-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB-; Negative	1)CARE BBB-; Stable (24-Dec-18)	1)CARE BBB-; Stable (28-Mar-18)	1)CARE BBB-; Stable (10-Jan-17) 2)CARE BBB- (09-Aug-16)	1)CARE BB- (23-Sep-15)
3.	Non-fund-based - LT-Bank Guarantees	LT	3.50	CARE BBB-; Negative	1)CARE BBB-; Stable (24-Dec-18)	1)CARE BBB-; Stable (28-Mar-18)	1)CARE BBB-; Stable (10-Jan-17) 2)CARE BBB- (09-Aug-16)	1)CARE BB- (23-Sep-15)
4.	Fund-based - LT-Funded Interest term Loan	LT	-	-	-	-	1)Withdrawn (09-Aug-16)	1)CARE BB- (23-Sep-15)
5.	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	1)Withdrawn (09-Aug-16)	1)CARE BB- (23-Sep-15)

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