

## Keerthi Industries Limited

March 28, 2018

### Ratings

Facilities	Amount(Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	22.98 (reduced from Rs.35.25 crore)	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook: Stable)</b>	Reaffirmed
<b>Total</b>	<b>22.98</b> <b>(Rupees Twenty two crore and ninety eight lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Keerthi Industries Limited (KIL) continue to draw strength from experienced management with established track record, adequate availability of raw materials, comfortable operating cycle and stable demand outlook of cement industry. The ratings also factor in improved capacity utilization in FY17 (FY refers to the period from April 1 to March 31) albeit decline in 9MFY18 (provisional) (9M refers to the period from April 1 to December 31), stable income levels during FY17 and 9MFY18. The ratings are, however, constrained by KIL's moderate scale of operations, moderate capital structure and debt coverage indicators, competition with established group in the Southern region and geographical concentration risk. The rating also takes into account decline in profitability margins during FY17 and 9MFY18. The ability of the company to increase its scale of operations with improvement in operating margin and diversify its geographical base shall be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced management with established track record:** KIL is currently headed by Mr J S Rao (Managing Director and CFO) and Mrs J Triveni (Executive Chairperson) who has more than 3 decades of experience in the cement industry. KIL started with a cement manufacturing plant with the installed capacity of 297,000 Tonnes Per Annum (TPA) which over a period of time was expanded to 594,000 TPA.

**Adequate availability of key raw materials with presence of limestone mines:** KIL sources limestone (major raw material which constitutes 40% of total raw material cost) from its allocated two mines which are situated in within the 2-7 km radius from the plant. Further, the prices of cement remain susceptible to the demand supply scenario. Hence, any adverse movement in the prices of raw materials or the diesel cost without a corresponding movement in the price of the cement can affect the profitability of the company.

**Improved capacity utilization in FY17 albeit decline in 9MFY18 (prov.):** The company's capacity utilization for cement has witnessed improvement during FY17 and was 82% (69% during FY16) due to increased demand. Realisations for cement however declined during FY17 by 9.48% to Rs.4,390.58/MT on account of demonetization. Further, during 9MFY18, the capacity utilization of cement division moderated to 79% on account of subdued demand for construction and real estate sectors.

**Stable income levels in FY17 and 9MFY18:** The company has reported a total operating income (TOI) of Rs. 192.88 crore in FY17 registering a Y-o-Y growth of about 5% on account of increased cement sales volume. Further, during 9MFY18, the company has registered income of Rs. 146.01crore.

**Comfortable operating cycle:** Working capital cycle though declined marginally and was comfortable at 20 days during FY17 (16 days in FY16) on account of decreased credit period availed from its suppliers. The average working capital utilisation was comfortable at around 45.02% for the 12 months ended in January 2018.

**Stable demand outlook of cement in Southern region:** The outlook of cement demand remains stable given governments focus on infrastructure and affordable housing and increased political stability which can drive further reforms.

#### Key Rating Weaknesses

**Decline in profitability margin:** PBILDT margin of the company declined by 477 bps to 17.13% in FY17 over FY16, on account of increase in raw material prices and power cost owing to increase in coal prices coupled with decline in

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

realization of cement. The PBILDT margin of the company remains stable at 17.98% 9MFY18 (9MFY17:17.96%). In line with lower PBILDT level PAT margin also decline by 659 bps to 6.90% during FY17 and further declined to 4.41 during 9MFY18 on account of higher capital charges during the said period.

**Relatively moderate size and geographical concentration:** KIL is a relatively moderate sized cement player 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.

**Moderate capital structure and debt coverage indicators:** The overall gearing ratio continues to remain moderate, however, improved marginally from 1.69x as on March 31, 2016 to 1.16x as on March 31, 2017 due to reduction in total debt and accretion of profit to reserves. Interest coverage ratio and Total debt/GCA were moderate at 6.70x (6.79x in FY16) and 2.75x (2.27x in FY16) respectively in FY17. Further, during 9MFY18, interest coverage ratio declined to 4.94x (9MFY17: 5.11x) on account of increased interest expense, however the same remained at satisfactory levels.

**Competition with established group in the Southern region:** The company faces intense competition from established players in the region. Hence, the smaller players like KIL have limited pricing power and 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 and power is sold to Chamundeshwari Electricity Supply Corporation Limited (CESCL). Further, 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)	FY16 (A)	FY17 (A)	9MFY18(Prov.)
Total operating income	183.25	192.88	146.01
PBILDT	41.96	33.05	26.25
PAT	19.91	13.32	6.44
Overall gearing (times)	1.69	1.16	0.99
Interest coverage (times)	6.79	6.70	4.94

A: Audited, Prov.-Provisional

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of 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	-	-	December 2021	12.48	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BBB-; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	3.50	CARE BBB-; 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	12.48	CARE BBB-; Stable	-	1)CARE BBB-; Stable (10-Jan-17) 2)CARE BBB- (09-Aug-16)	1)CARE BB- (23-Sep-15)	1)CARE C (27-Mar-15) 2)CARE D (07-Nov-14)
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (10-Jan-17) 2)CARE BBB- (09-Aug-16)	1)CARE BB- (23-Sep-15)	1)CARE C (27-Mar-15) 2)CARE D (07-Nov-14)

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