Keerthi Industries Limited
March 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.68	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
Total facilities	**15.68 (Rs. Fifteen Crore and Sixty eight lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the bank facilities of Keerthi Industries Limited (KIL) continues on account of deterioration in operational performance during FY19 (refers to the period from April 01 to March 31) and 9MFY20 coupled with moderate capital structure marked by deterioration in debt coverage indicators. The rating continues to be 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 rating, nevertheless, draws strength moderate financial performance during 9MFY20 (refers to the period from April 2019 to December 2019), experienced and resourceful management with established track record in the cement industry, adequate availability of raw materials, and stable demand outlook of cement in the Southern region and moderate operating cycle with weak liquidity position.

Rating Sensitivities:

Positive Factors

- Improved scale of operations and profitability with PBILDT margin of 14% and above during projected years.
- Improvement in PBILDT/ton to Rs. 400 and above.

Negative Factors

- Negative deviation of more than 20% in achieving the projected revenue and PAT levels.
- Overall gearing increasing above 1.20x during projected periods.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deteriorated operational performance during FY19 and 9MFY20 (UA): The operational performance of the cement division of the company deteriorated significantly during FY19. Although, the capacity utilization level for the cement division improved to 81.22% during FY19 (80.75% in FY18), the same did not materialize to sales, owing to sluggish demand for cement. The company's capacity utilization level declined to around 74% during 9MFY20 vis-à-vis 76% during 9MFY19 with decline in production volume and sales volumes owing to slowdown in economic activity with delays in various government projects, labour shortages and tight liquidity in the markets coupled with extended monsoons and Intense winters, thereby resulting in low cement off-take during the period.

Moderate capital structure albeit deteriorated debt coverage indicators: The company's capital structure marked by the overall gearing continues to remain stable at 1.11x as on March 31, 2019 (1.11x as on March 31, 2018). Despite scheduled repayment of term loans and redemption of preference share capital during the year, the capital structure remained stable due to decline in the company's tangible networth in lieu of significant decline in PAT level in FY19. However, with significant decline in PBILDT level and resultant decline in cash accruals in FY19, the company's debt coverage indicators deteriorated significantly with TDGCA of 9.99x (3.03x in FY18) and interest coverage ratio of 1.58x (4.88x in FY18) in FY19.

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

Medium player in the industry subject to geographical concentration risk: KIL generates a stable stream of revenue from a relatively small scale of operations with an installed cement capacity of 5.94 lakh TPA and clinker capacity of 5.28 lakh TPA. The company lacks the economies of scale and operational efficiencies enjoyed by larger established competitors present in the southern region. 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 85% of the total cost of sales during FY19 (79% of the total cost of sales during FY18). 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 10% during FY19 vis-à-vis FY18. The cost of power purchased also increased during FY19 vis-à-vis FY18.

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.

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.

Moderate financial performance during 9MFY20: During 9MFY20, the company's TOI remained stable at Rs. 130.68 crore (Rs. 130.48 crore during 9MFY19) marked by improved sales realizations for cement. Resultantly, the PBILDT margin improved by 327 bps from 5.78% during 9MFY19 to 9.05% during 9MFY20.

Financial support from promoters: The promoters of the company support the company by regularly infusing funds as and when required. Inter-corporate deposits from promoters stood at Rs. 28.07 crore as on March 31, 2019 vis-à-vis Rs. 24.72 crore as on March 31, 2018 (Rs. 3.35 crore extended during the year) and further at Rs. 32.76 crore as on December 31, 2019 (Rs. 4.69 crore extended during 9MFY20). The same was utilized towards debt servicing and supporting the company's operations.

Moderate working capital cycle: The operating cycle of the company was moderate at 24 days in FY19 (24 days in FY18) with inventory days of 49 days in FY19 (54 days in FY18) for maintaining stocks of raw material and coal. Nevertheless, the same continues to remain comfortable. The company provides credit period of up to 5-6 days for its sales, and is able to avail credit period of up to 35-40 days from its suppliers.

Stable demand outlook of cement in Southern region: The cement production to remain steady with total output expected to grow by 5-7% during FY20. Prices are also expected to remain stable. Retail segment demand would be the key to further strengthening of cement prices. Increased government spending and incentives to housing especially in the affordable segment (both rural and urban) should lead to steady growth rates for the sector from FY20 onwards. Roads, Urban Infrastructure and Commercial realty too would continue to be key demand drivers for cement. Among regions, Southern and Eastern segments would continue to be major regional demand drivers followed by Western region.

Liquidity Analysis: Moderate

KIL's liquidity position was moderate during FY19. The promoters have been supporting operations and have infused inter corporate deposits to the tune of Rs. 3.35 crore during FY19 and further Rs. 4.69 crore during December 2019. The average working capital utilization was comfortable at around 40.80% for the 12 months ended in January 2020.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Methodology for 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)	FY18 (A)	FY19 (A)
Total operating income	195.15	186.25
PBILDT	27.61	8.17
PAT	7.95	0.07
Overall gearing (times)	1.11	1.11
Interest coverage (times)	4.88	1.58

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
Fund-based - LT-Term Loan	-	-	June 2021	5.18	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BB+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	3.50	CARE BB+; 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 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.	Fund-based - LT-Term Loan	LT	5.18	CARE BB+; Stable	1)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)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)
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB+; Stable	1)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable	1)CARE BBB-; Stable (28-Mar-18)	1)CARE BBB-; Stable (10-Jan-17) 2)CARE BBB- (09-Aug-16)

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
						(24-Dec-18)		
3.	Non-fund-based - LT-Bank Guarantees	LT	3.50	CARE BB+; Stable	1)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)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)
4.	Fund-based - LT-Funded Interest term Loan	LT	-	-	-	-	-	1)Withdrawn (09-Aug-16)
5.	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	-	1)Withdrawn (09-Aug-16)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities – NA

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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