

## Keerthi Industries Limited

June 10, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	21.08	<b>CARE BB+; Stable (Double B Plus; Outlook: Stable)</b>	<b>Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)</b>
<b>Total Facilities</b>	<b>21.08 (Rupees Twenty One crore and eight lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Keerthi Industries Limited is on account of significant decline in financial performance in FY19 (FY refers to the period from April 01 to March 31) with decrease in PBILDT & PAT margins and 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 draw strength from 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.

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.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Significant decline in financial performance during FY19

The Company registered PAT of Rs.0.07 crore on a total operating income of Rs.188.59 crore during FY19 (as against PAT of Rs.7.95 crore on a revenue of Rs.195.15 crore during FY18). The PBILDT margin declined significantly during FY19 by 803 bps to 6.34% (as against 14.37% during FY18) due to lower realization, increase in input raw material and other operational expenses primarily owing to increase in diesel and coal prices. The company reported GCA of Rs. 5.36 crore during FY19 (as against Rs.19.93 crore during FY18).

##### Weak debt coverage indicators with moderate capital structure

The debt protection metrics marked by the TDGCA and interest coverage ratio have deteriorated and stood at 10.34x and 1.81x respectively for FY19 (as against 3.14x and 4.88x for FY18). Further, the company's capital structure marked by the overall gearing improved marginally to 0.98x as on March 31, 2019 (As against 1.11x as on March 31, 2018).

##### 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. Moreover, the company is subject to geographic concentration risk since it predominantly markets its products in the 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). Coal accounts for a majority of KIL's power and fuel needs, which is procured domestically as well as imported from South Africa. The company's PBILDT margin has been impacted during FY19 primarily due to increase in prices of power and input raw material 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.

#### 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

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

installed capacity of 297,000 TPA (Tonnes per Annum) which over a period of time has expanded to 594,000 TPA. Promoters have infused Rs. 12.61 crore during FY18 and further Rs. 1.75 crore during 9month period of FY19 in the form of Inter-corporate deposits/loans to facilitate debt servicing and support the company's operations.

#### **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 operating cycle with weak liquidity position**

KIL has weak liquidity position. As on March 31, 2019, the company had cash and bank balance of Rs. 1.04 crore (Rs 7.73 as on March 31, 2018). The operating cycle of the company was moderate at 11 days for FY19 vis-a-vis 24 days for FY18. This was primarily on account of decline in inventory days from 54 days in FY18 to 37 days in FY19.

#### **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 FY20, growth in the cement sector is estimated at around 6-7% backed by growth in irrigation and real estate projects. The cement production is expected to cross 320 million tonnes during FY20 and utilization in cement capacity across regions is expected to improve during the year.

**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.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total Operating Income	195.15	188.59
PBILDT	27.61	11.95
PAT	7.95	0.07
Overall Gearing (times)	1.11	0.98
Interest Coverage (times)	4.88	1.81

*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	10.58	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	10.58	CARE BB+; Stable	-	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 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)
3.	Non-fund-based - LT-Bank Guarantees	LT	3.50	CARE BB+; Stable	-	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)

**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.

## Contact us

### Media Contact

Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – mradul.mishra@careratings.com

### Analyst Contact

Group Head Name – Mr. Prasanna Krishnan  
Group Head Contact no. - 040-67937421  
Group Head Email ID- prasanna.krishnan@careratings.com

### Business Development Contact

Name: Mr. Ramesh Bob  
Contact no. : + 91 90520 00521  
Email ID: ramesh.bob@careratings.com

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