

## Keerthi Industries Limited

December 24, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	21.08 (reduced from 22.98)	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook- Stable)</b>	Reaffirmed
<b>Total Facilities</b>	<b>21.08</b> <b>(Rupees Twenty One crore and eight lakh only)</b>		

*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 and H1FY19. 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 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.

**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 deteriorated at 3.03x and 4.88x respectively for FY18.

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

**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 utilisation 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

**Decline in financial performance during FY18 and H1FY19:** 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](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.

**Analyst Contact:**

Name: Ms. Radhika Ramabhadran

Tel: 040-6900 0516

Mobile: +91-8008883012

Email: [radhika.ramabhadran@careratings.com](mailto:radhika.ramabhadran@careratings.com)

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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-; 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 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-; Stable	-	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-; Stable	-	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-; Stable	-	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)

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 85111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)