Shri Keshav Cements & Infra Limited

May 5, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	45.73 (Enhanced from 11.75)	**CARE BB; Positive (Double B; Outlook: Positive)**	**Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)**
Total	**45.73 (Rupees fourty five crore and seventy three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Shri Keshav Cements and Infra Limited (SKCIL) takes into account increase in profitability margin in 9MFY17 (Un-audited, refers to period from April 01 to December 31) vis-à-vis 9MFY16 (Un-audited), significant improvement in capital structure as on January 31, 2017, completion of enhanced manufacturing facility during April 2017 and improvement in sales realization in FY17 (Provisional) compared to FY16. The rating continues to derive strength from experience of its promoters in cement industry, increasing total operating income, improving working capital cycle and locational advantage with proximity to raw materials. The rating, however, continues to be constrained by its modest scale of operations, stabilisation risk associated with enhanced manufacturing facility and no captive sources of raw materials & power. The rating is further constrained on account of decline in total operating income in 9MFY17 (Un-audited) vis-à-vis 9MFY16 (Un-audited).

Ability of the company to increase scale of operations, achieve the commercial operations and stabilise enhanced manufacturing facility as envisaged, maintain its capital structure and profit margins and manage working capital requirements efficiently form the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook reflects the SKCIL's completion of enhanced manufacturing capacity which is expected to result in growth in scale and improvement in key financial parameters. The outlook may be revised to 'Stable' if the company is unable to achieve the growth as envisaged.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations: The company is a small player in cement industry with installed capacity of 105000 metric tonnes per annum (MTPA) and is expected to increase in capacity to 270000 MTPA during May, 2017. Despite long track record of operations, the total income of the company was low at Rs.55.43 crore in FY16. The gross cash accruals were also moderately low at Rs. 6.59 crore in FY16.

No captive sources of raw materials & power: The major raw materials to manufacture OPC are limestone, gypsum & coke, which are sourced domestically. With no captive source of raw materials, the company is exposed to volatility in the prices of these raw materials, which it may not be able to pass on entirely as cement prices are driven by demand from the construction & infrastructure sector. The company does not have any captive source of power either and sources the same from the grid.

Key Rating Strengths

Increase in profitability margins albeit decline in total operating income in 9MFY17 vs. 9MFY16: The total operating income of the company declined by around 21% to Rs.31.36 crore in 9MFY17 over 9MFY16 due to decline in production levels and sales realisation. However, the company achieved total operating income of Rs.59.25 crore in FY17 (Provisional) compared to Rs.55.43 crore in FY16. Also the PBILDT margins have substantially increased by 874 bps from 24.17% in 9MFY16 to 32.91% in 9MFY17 mainly on account of decline in power cost.

Improved capital structure: The capital structure of the company marked by overall gearing improved from 1.97x as on March 31, 2015 to 1.38x as on March 31, 2016. Furthermore, the overall gearing improved significantly to 0.53x as on January 31, 2017 due to subordination of unsecured loans (Rs.23.37 crore) to the external debt.

Completion of enhanced manufacturing facility during April 2017, however, project stabilisation risk prevails: The company has planned to increase its installed capacity from 105000 MTPA to 270000 MTPA. The company has incurred 100% of total cost associated with enhanced manufacturing capacity as on April 24, 2017. The company expects to commence operations of enhanced manufacturing capacity during May, 2017. Furthermore, the stabilization risk pertaining enhanced manufacturing facilities remains critical from credit perspective.

Improvement in sales realisation, however, marginal decline in capacity utilisation in FY17 (Provisional): The company produced 98,115 MTPA of cement with capacity utilisation of 93% in FY17 (Provisional) compared to production of 99,452

MTPA of cement with capacity utilisation of 95% in FY16. However, the sales of realisation of cement has Increased to Rs.6053/MT in FY17 (Provisional) compared to Rs.5574/MT in FY16.

Increasing total operating income and stability in profit margins earned: The total operating income of the company increased by 8.75% from Rs. 50.97 crore in FY15 to Rs. 55.43 crore in FY16 due to increase in quantity of cement sold. The PBILDT margin of the company remained healthy and showed a marginal increase by 71bps from 21.95% in FY15 to 22.66% in FY16 due decline in power cost.

Extensive Experience of Promoters: SKCIL was promoted by Mr. H. D. Katwa who has more than four decades of experience in the cement industry. Other directors - Mr. Venkatesh Katwa, Mr Vilas Katwa and Mr Deepak Katwa (Sons of Mr H.D.Katwa) - are all MBA graduates having significant experience in the fields of cement, IT, Finance etc.

Strategic locational advantage with proximity to raw materials: SKCIL's facilities are located in Bagalkot District of northern Karnataka which has abundant availability of limestone reserves while coal is procured from the nearby states of Madhya Pradesh & Maharashtra providing easy access to raw materials.

Improvement in working capital cycle: The working capital cycle improved from 113 days in FY15 to 72 days in FY16 due to decline in inventory period from 108 days in FY15 to 74 days in FY16.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's rating methodology- Cement Industry

About the Company

Incorporated in 1993, Shri Keshav Cements and Infra Ltd (SKCIL) (erstwhile Katwa Udhyog Limted) is a Public Limited Company (listed in BSE), is a venture of the Katwa group for manufacturing of Ordinary Portland Cement (OPC). SKCIL was promoted by Mr H. D. Katwa who has vast experience of almost three decades in this industry. The daily operations of the company are managed by Mr. Vilas H Katwa. SKCIL has two plants located in Karnataka at Kaladgi and Lokapur.

SKCIL is engaged in the manufacturing of 43-grade and 53-grade OPC and trading of coke breeze. SKCIL is a relatively small player in the cement industry with an installed capacity of 350 tonnes per day (around 105,000 metric tonnes per annum) as on March 31, 2016. The company has proposed to increase its installed capacity to 900 tonnes per day (around 270000 metric tonnes per annum) during May, 2017. The company has incurred 100% of total cost associated with enhanced manufacturing capacity as on April 24, 2017. The company has incurred total cost of Rs.50.74 crore funded by long-term loan of Rs.33.74 crore and Rs.17.01 crore from unsecured loans (infused by the promoters) and internal accruals. The company expects to commence operations of enhanced manufacturing capacity during May, 2017.

In FY16, SKCIL had a Profit after Tax (PAT) of Rs.3.50 crore on a total operating income of Rs.55.25 crore, as against PAT and TOI of Rs.2.79 crore and Rs.50.80 crore, respectively, in FY15. In 9MFY17, SKCIL had achieved a PAT of Rs.4.04 crore on a total income of Rs. 31.36 crore, as against PAT and TOI of Rs. 3.32 crore and 39.63 crore respectively in 9MFY16.

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Cash Credit	-	-	-	12.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	June 2025	33.73	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	-	CARE BB-; Stable	-	-	1)CARE BB- (15-Jan-16)	-
2.	Fund-based - LT-Cash credit	LT	12.00	CARE BB-; Stable	-	-	1)CARE BB- (15-Jan-16)	-
3.	Fund-based - LT-Term Loan	LT	33.73	-	-	-	-	-

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