

Draft press release
Keerthi Industries Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ²	Rating Action
Long Term Bank Facilities	10.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	10.50 (Rs. Ten Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Keerthi Industries Limited (KIL) is on account of significant improvement in total operating income (TOI), profitability and capital structure during FY21 (refers to the period from April 1 to March 31). The ratings further derive strength from experienced promoters and qualified management team, established track record of operations, integrated nature of operations with presence of captive power plant & limestone mines, comfortable financial risk profile and favourable industry outlook. The ratings are however, constrained by relatively moderate size of the company, regional concentration risk with majority of sales coming from Andhra Pradesh and Telangana markets, exposure to volatility in input costs especially coal and its presence in a competitive and cyclical cement industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in TOI above Rs.300 crore while maintaining PBILDT margin at 18%
- PBILDT/ton above Rs.950 on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Overall gearing deteriorating beyond 1x, in future
- Any notable decline in operating income or profitability by more than 30% y-o-y going forward.
- Un-envisaged increase in term debt or more than 80% utilisation of WC lines

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance in FY21

The operational performance of the cement division has improved significantly during FY21 mainly due to higher sales realization. The total operating income of the company increased from Rs.173.49 crore in FY20 to Rs.233.86 crore in FY21 on account of increase in capacity utilization from 76.71% in FY20 to 85.96% in FY21 coupled with increase in sales volume from 4,55,428 MT in FY20 to 5,13,790 MT in FY21. KIL's electronic division also improved by 12.59% from Rs.9.02 Cr in FY20 to Rs.10.46 Cr in FY21. Significant improvement in cement realisation along with decline in freight cost combined with the selling expenses (as a percentage of revenue) led to improvement in the margins. The PBILDT/ton improved from Rs.205.98 in FY20 to Rs.932.28 in FY21.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
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Experienced and resourceful management with established track record in the industry

KIL is currently headed by Mr. J S Rao and Mrs. J Triveni, each with over two decades of experience in the cement industry. KIL initially started its operations with a cement manufacturing plant with total installed capacity of 297,000 MTPA which over the years was expanded to 594,000 MTPA. The management in due course of time has also diversified into power generation, manufacturing of electronic goods and sugar. Mrs. Jasti Triveni (age 58 years) is a graduate in commerce with vast experience of over three decades in the cement Industry. During her tenure with KIL, the operations of the company had witnessed a turnaround from being a sick company to a profit-making company. Mr. J. Sivaram Prasad is a Chartered Accountant with diverse experience across the power, sugar and cement Industry for over 30 years. He is also one of the Promoters of Kakatiya Cement Sugar & Industries Ltd. The Promoters' industry experience and established relationships with clients has augured well for the company in terms of procuring contracts from a reputed clientele. The promoters of the company support the company by regularly infusing funds as and when required.

Satisfactory capital structure and debt coverage indicators

The capital structure of the company marked by overall gearing improved to 0.40x as on March 31, 2021 as against 1.02x as on March 31, 2020 on account of schedule repayment of term loans and lower utilization of the working capital limits. The interest coverage ratio improved from 1.63x in FY20 to 9.47x in FY21 on account improvement in PBIDLT levels along with lower interest expense.

Comfortable operating cycle with low levels of working capital facilities utilization

The operating cycle of the company is comfortable at 34 days in FY21 (23 days in FY20) with inventory days of 48 days (44 days in FY20) for maintaining stocks of raw material and coal. As on date the company has 20-30 days of stock of coal. The company provided credit period of around 7 days to its customers while obtaining 28 days credit from its suppliers (21 days in FY21). With comfortable collection period, the average working capital utilization was remained low at 8% for the last 12 months ending November 30, 2021.

Key Rating Weaknesses

Medium-sized player in the Cement Industry subject to geographic 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, marketing costs, and raw materials (limestone, fly ash, gypsum and laterite) which accounted for nearly 85% of the total cost of sales during FY21. Limestone is the major raw material for production of cement for which KIL has a mining lease. Coal accounts for a majority of KIL's power and fuel needs, which is procured domestically as well as imported from South Africa. About 70% of the total coal requirements are met through imports while the rest is purchased from The Singareni Collieries Company Limited (SCCL) (rated CARE AA; Stable) in India. Coal prices remain highly volatile due to uncertainty in availability which impacts prices.

Intense competition and derived demand from the real estate sector

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. Furthermore, the cement industry is primarily dependent upon the demand of real estate and construction sector, which has remained subdued.

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Liquidity: Adequate

The adequate liquidity position is marked by GCA of Rs.32.50 crore with total repayment obligations of Rs.0.95 crore in FY22. The company has cash and bank balances of Rs.9.50 crore as on March 31, 2021. Further the average utilization was low at 8.77% for the last twelve months ended Nov, 2021. Also, the company has sufficient gearing headroom to raise additional debt if needed.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company

Keerthi Industries Limited (KIL) was initially incorporated as Suvarna Cements Limited by Late Mr. J S Krishna Murthy in May, 1982. In the year 2000, Mrs. J. Triveni (Executive Chairperson) and Mr. J. S. Rao (Managing Director) 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 is located at Nalgonda district of Telangana with an installed capacity of 5,94,000 Metric Tonnes Per Annum (MTPA). KIL sells cement under the brand name 'Suvarna Cements'. KIL procures 70% of its coal requirement from Singareni Collieries. The company sells to the customers located in Andhra Pradesh and Telangana.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	173.49	233.86	127.96
PBILDT	9.88	50.16	24.17
PAT	-0.32	19.26	12.79
Overall gearing (times)	1.02	0.40	NA
Interest coverage (times)	1.63	9.47	15.20

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE BBB-; Stable

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Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
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	Type	Current Ratings		Date(s) & Rating(s) assigned in 2021-2022	Rating history		
			Amount Outstanding (Rs. crore)	Rating		Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable (24-Dec-18)
2	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable (24-Dec-18)
3	Non-fund-based - LT-Bank Guarantees	LT	3.50	CARE BBB-; Stable	-	1)CARE BB+; Stable (16-Mar-21)	1)CARE BB+; Stable (30-Mar-20) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (18-Feb-19) 2)CARE BBB-; Stable (24-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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