Parasakti Cement Industries Limited

July 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund-based facilities (CC)	50.00	50.00	[ICRA]BBB+(Stable), reaffirmed, outlook revised from positive
Long Term: Fund-based facilities (sub-limits)	(20.00)	(20.00)	[ICRA]BBB+(Stable), reaffirmed outlook revised from positive
Long Term: Fund based -Unallocated	11.70	11.70	[ICRA]BBB+(Stable), reaffirmed, outlook revised from positive
Short Term: Non-fund Based facilities	36.50	36.50	[ICRA]A2+, reaffirmed
Short Term: Non-fund Based facilities (sub-limits)	(11.50)	(11.50)	[ICRA]A2+, reaffirmed
Total	**98.20**	**98.20**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB+ (pronounced ICRA triple B plus)[1] to the Rs. 50.00 crore fund-based bank facilities and the Rs. 11.70 crore fund-based proposed facilities of Parasakti Cement Industries Limited (PCIL). ICRA has also reaffirmed the short-term rating at [ICRA] A2+ (pronounced as ICRA A two plus) to the Rs. 36.50 crore non-fund based facilities. The outlook on the long-term rating has been revised to 'Stable'.

Rationale

The ratings reaffirmation considers the promoter's vast industry experience in the cement industry, PCIL's established presence in the markets it operates, and favourable location of its plant in the Nalgonda cluster of Telangana, which provides better access to key inputs such as limestone. The ratings also factor in PCIL's geographically diversified presence and favourable demand outlook with increasing spend on infrastructure and irrigation activities in the state of Telangana and Andhra Pradesh.

The revision in outlook to stable considers the lower than expected net cash accruals during FY2018 due to increase in freight costs, fuel costs and dividend outflows. With input prices remaining at elevated levels in current year, the FY2019 earnings is likely to be affected. That said, the ongoing capex towards commissioning of 6.5-megawatt waste heat recovery boiler (WHRB) in September 2018, shall result in saving of power cost for the company thus arresting the fall in earnings to a large extent. With an installed capacity of 1.68 million MT and operating in a highly competitive market, PCIL's scale of operations remains moderate which constrains pricing flexibility.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

The ratings continue to be supported by PCIL's comfortable capitalisation and coverage indicators with gearing, interest coverage and Total debt to OPBDITA of 0.5x, 16.6x and 2.0x as at March 31, 2018. Going forward, with the planned capex towards to be funded mainly by internal accruals, the company's debt indicators are expected to remain comfortable.

Outlook: Stable

ICRA believes PCIL will continue to benefit from the diversified revenue profile and its plant location in the Nalgonda cluster of Telangana, which provides easy access to key inputs. The outlook may be revised to Positive with sustained growth in revenue and profitability while maintaining the debt protection metrics. The outlook may be revised to Negative if financial profile weakens owing to lower than expected cash accrual, or if any cost overrun of its capital expenditure.

Key rating drivers

Credit strengths

Rich experience of the promoters in the cement industry spanning several decades- Incorporated in 1998, PCIL manufactures and markets cement and allied products in the markets of AP, Telangana, Karnataka and Tamil Nadu with an installed capacity of 1.68 million MT. Mr. Munikrishna, the promoter and managing director of PCIL, hold 50% stake and has vast experience in the cement industry. The balance 50% is held with Penna Cements Limited having a capacity of 7 million MT and one of the prominent cement players in the state.

Diversified presence- The company has a geographically diversified presence across five states with 66% of revenues from the markets of AP and Telangana supported by infrastructure spend by both the private and governments. Of the balance, 17% is from Tamil Nadu, 11% from Karnataka, and 6% from Maharashtra. Within Andhra Pradesh, company derives majority of its revenues from Guntur, Vizag, Krishnapatinam and Chittoor districts whereas Hyderabad accounts for a major share in Telangana. Further, the company enjoys healthy brand recognition and recall in Guntur market. Going forward, PCIL will benefit from the favourable demand outlook with increasing spend on infrastructure and irrigation activities in the states of Telangana and Andhra Pradesh.

Proximity to captive limestone mines with high quality reserves- The location of the plant in the Nalgonda cluster provides easy access to rich quality limestone which is a key input for cement manufacturing. However, the company incurs outbound road logistic costs for its product which drags its profitability.

Comfortable debt indicators- PCIL's debt profile mainly comprise of interest free sales tax loan availed from the Andhra Pradesh Government during the period, FY2006 to FY2011 apart from vehicle loans. With low debt funding towards the past capex and stable earnings, the company's gearing and coverage indicators have been comfortable at 0.5x times and 16.6x times in FY2018. With the planned capex towards WHRB and Solar plant to be funded majorly by internal accruals, the company's debt indicators are expected to remain comfortable.

Credit challenges

Medium-sized player with moderate pricing flexibility in a highly competitive market- With revenues of Rs.376.0 crore in FY2018 and installed capacity of 1.68 million MT, PCIL is relatively a medium sized player in the Indian cement industry. Lower scale, intense competition and absence of spilt grinding plants closer to the consuming market and/or in proximity to fly ash/slag available centres to rationalise freight costs, limits margin expansion; however, proximity of plant to its captive limestone mines mitigates this impact to a large extent.

Rising fuel & freight costs impacts margins – While the volumes grew by 11.6%, the operating margins contracted by 284 bps to 10.8% during FY2018 largely affected by the higher freight and power & fuel costs. PCIL's net margins moderated by 150 bps to 2.8% during FY2018 with a dip in operating margins. This coupled with high dividend payouts resulted in 11.5% fall in networth as of March 2018.PCIL's reliance on road logistics for procurement of key raw materials (fly ash, slag, gypsum, pet coke, etc.) and distribution of cement, as the plant is in the hinterlands of Guntur district, leads to high freight costs, thus impacting margins. Also, absence of split grinding plants closer to the consuming market and/or in proximity to fly ash/slag available centres to rationalise freight costs, limits margin expansion.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Cement Industry

About the company:

Established in 1998, Parasakti Cement Industries Limited (PCIL) manufactures and markets cement and allied products in the markets of Andhra Pradesh (AP), Telangana, Karnataka and Tamil Nadu with an installed capacity of 1.68 million tonne per annum (mtpa). PCIL produces four grades of cement—namely, 53/43 grades Ordinary Portland Cement (OPC) and Pozzolana Portland Cement (PPC), and Sulphate Resisting Portland cement (SRPC)—and sells them under the brand name, 'Parasakti'. The promoter of the company (Mr. Muni Krishna) holds 50% stake in the company, with the rest held by Penna Cements Limited (capacity of 7 Million MT).

The promoters have business interests in two other companies—Turbovent Industries Private Limited and MYK Spinning Industries Private Limited; engaged in manufacturing industrial fans and cotton yarn, respectively.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	328.6	376.0
PAT (Rs. crore)	14.0	10.3
OPBDIT/OI (%)	13.6%	10.8%
RoCE (%)	8.8%	6.8%
Total Debt/TNW (times)	0.4	0.5
Total Debt/OPBDIT (times)	1.9	2.0
Interest coverage (times)	25.5	16.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 June 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 March 2016
1	Cash credit	Long Term	50.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Positive)**	-	**[ICRA]BBB (Positive)**
2	Fund based facilities (sub limits)	Long Term	(20.00)	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Positive)**	-	**[ICRA]BBB (Positive)**
3	Unallocated facilities	Long Term	11.70	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Positive)**	-	**[ICRA]BBB (Positive)**
4	Non-fund-based facilities	Short Term	36.50	-	**[ICRA]A2+**	**[ICRA]A2+**	-	**[ICRA]A2**
5	Non-fund-based facilities (sub limits)	Short Term	(11.50)	-	**[ICRA]A2+**	**[ICRA]A2+**	-	**[ICRA]A2**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]BBB+ (Stable)
NA	Fund based facilities (sub limits)	NA	NA	NA	(20.00)	[ICRA]BBB+ (Stable)
NA	Unallocated facilities	NA	NA	NA	11.70	[ICRA]BBB+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	36.50	[ICRA]A2+
NA	Non Fund based facilities (sub limits)	NA	NA	NA	(11.50)	[ICRA]A2+

Source: Parasakti Cement Industries Limited

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About ICRA Limited:

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