

## K.D. Cements

Instrument	Rated Amount	Rating Action
Cash Credit Facility	Rs. 10.00 crore	Revised upward to [ICRA]BBB(Stable)
Term Loan	Rs. 9.96 crore	[ICRA]BBB-(Stable) withdrawn

ICRA has revised upwards the rating assigned to the Rs. 10.00 crore<sup>1</sup> fund based bank limits of K. D. Cements (KDC / the firm)<sup>2</sup> from [ICRA]BBB- (pronounced ICRA triple B minus) to **[ICRA]BBB** (pronounced ICRA triple B). The outlook on the long term rating is **Stable**. ICRA has withdrawn the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) with a stable outlook assigned to the Rs. 9.96 crore term loans of KDC.

The upgrade in the long term rating takes into account the strong liquidity position of the firm, primarily due to the receipt of large subsidies in the current financial year, leading to pre-payment of long term debt. Notwithstanding a large amount of capital withdrawal in the current year, which is typical in a partnership firm, the receipt of subsidy that stood outstanding at Rs. 26.39 crore as on December 31, 2015, would boost KDC's liquidity position over the medium term. Moreover, the efficient working capital management policy has led to low working capital utilization, notwithstanding the high working capital intensity of the business. The rating factors in the healthy contribution margin registered by KDC at present, which is likely to sustain, going forward. ICRA also notes its favorable financial risk profile, as reflected by a conservative capital structure and comfortable debt protection metrics. The rating further notes KDC's position as part of a diversified Lohia Group, and the established distribution network of the partners in the region. Nonetheless, ICRA expects the contribution levels of KDC to continue to remain healthy.

The rating is, however, constrained by the firm's exposure to fluctuations in raw material prices, and the supply overhang in the cement industry that is likely to limit any meaningful increase in margins in the near term. The rating also takes into consideration KDC's exposure to the cyclical nature of the cement industry that makes realizations and margins susceptible to supply side dynamics. ICRA further notes the risks inherent in partnership firms, including the risk of capital withdrawal. Going forward, KDC's foray into the non-trade segment, primarily to accommodate its doubling of capacity, is likely to aid capacity utilization, although margins would be adversely impacted. In ICRA's opinion, the ability of the firm to increase its utilization levels from its expanded capacity, while improving its profitability along with timely receipt of various subsidies, would be the key rating sensitivities, going forward.

### Entity Profile

K. D. Cements (KDC) is a part of the North East-based K. D. Group, whose promoters have interests in various businesses including steel, cement, retail and real estate, among others. Incorporated in 2008, KDC has been engaged in the production of cement, with its manufacturing facilities at Bhomraguri, Assam. It has a current installed capacity of 1.65 lakh tons per annum (tpa). The firm markets cement under the brand name, 'Suraksha'.

### Recent Results

During FY2015, KDC reported a profit after tax (PAT) of Rs. 4.94 crore on the back of an operating income (OI) of Rs. 58.21 crore, as against a PAT of Rs. 0.38 crore and OI of Rs. 54.42 crore during FY2014.

**March 2016**

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<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.



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