Press Release

Penna Cement Industries Limited

July 08, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 1920.00 Cr.
Long Term Rating	ACUITE A+ / Outlook: Stable
Short Term Rating	ACUITE A1+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A+**' **(read as ACUITE A plus)** and short-term rating of '**ACUITE A1+**' **(read as ACUITE A one plus)** on the Rs. 1920.00 Cr. bank facilities of Penna Cement Industries Limited (PCIL). The outlook is **'Stable'**.

Incorporated in 1991, PCIL is engaged in the manufacturing of cement. The company has six units spread across 3 states, Andhra Pradesh, Telangana and Maharashtra. The total installed capacity for cement is 10 MTPA. Further, the company has 4 integrated plants, mines, 2 grinding units, and 2 packaging terminals across five states. The company has undertaken an expansion programme for addition of 2 new packaging terminal in Kolkata and Karaikal, which is expected to be completed by FY2021. It also has a 77MW coal-based captive power generation plant and a 17MW waste heat recovery system.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of PCIL to arrive at the rating. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced Management and established track record of operations**
  Incorporated in 1991, PCIL is engaged in manufacturing of cement with a total installed capacity of 10 MTPA along with 77 MW coal based captive power plant and 17 MW Waste Heat Recovery System. The company is promoted by Mr. P Prathap Reddy who has an extensive experience of more than three decades in cement industry. The company sells its products under the brand name, "Penna", and has an established presence across 9 states namely, Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Kerala, Goa, Maharashtra, Odisha and West Bengal. Further, the company also caters to international clientele through its subsidiary in Sri Lanka. The company has a large distribution network of over 3,700 dealers across various states. The established brand positioning of "Penna", its wide geographic presence in nine states coupled with experienced management has enabled the company to achieve healthy growth in volumes in last three years ending FY2020 (Prov.). The total volumes sold have improved sequentially to 5.2 million ton in FY2020 (Prov.) as against 4.2 million ton in FY2018 (growth of 24%). The increase in volumes is driven by wide range of domestic as well as international clienteles (through its subsidiary in Sri Lanka).

  Going ahead, Acuité believes that PCIL will benefit from its established position in cement industry and its strategy of scaling up operations through a mix of organic and inorganic initiatives in a long term period.

- **Expectations of Improvement in business risk profile**
  PCIL's business profile has improved in FY2020 and is expected to improve further over the medium term on account of its new capacity coming on-stream. Though the total volumes sold had remained flattish in FY2020 (Prov.) over FY2019, the volumes are expected to improve during H2FY2021 and in FY2022, on account of pent up demand for infrastructure development. The company has sold around 5.2 million tonnes in FY2020 (Prov.) as against 5.3 million ton in the previous year, though the volumes sold have remained flat, there has been an improvement in the geographic concentrations. Despite a volume decline in its key markets, the company has been able to record healthy growth in new geographies.

The volume contribution from Southern part of India has decreased to 78 per cent of total volumes in FY2020 from 85 per cent in FY2019, the company has witnessed a significant growth in West and East region with an increase in realization per ton across all the regions. The realization per ton has improved by ~3 per cent in FY2020 over FY2019 marked by ~Rs.5767 per ton in FY2020 (Prov.) from Rs.5614 per ton in the previous year thereby resulting in revenues of Rs.2129 Cr in FY2020 (Prov.) as against Rs.2166 Cr. in the previous year. Further, the EBITDA per ton has also improved in FY2020 by ~7 per cent marked by Rs.645 in FY2020 (Prov.) as against Rs.604 in the previous year. Acuité expects that the EBITDA contribution per ton is likely to improve further on account of the power cost savings and higher revenues leading to better absorption of fixed costs. The impact of the same is likely to be more pronounced from FY2021 onwards, when majority of the new capacity comes on stream.

The company has also been continuously undertaking capital expenditure since the last five years ending FY2020. This includes capacity enhancement for cement to 10 MTPA from 7 MTPA as well as for increasing the capacity for clinkers to 7.8 MTPA from 5.3 MTPA. Further, the company has also invested in WHR and bought a vessel with a capacity of 25,000 Ton for captive consumption. These capex is likely to result in lower operational cost coupled with achieving economies of scale; the EBITDA per ton is expected to improve gradually from FY2021. The company's total capacity utilisation stood at ~52 per cent in FY2020; this is on account of addition of new units in last three years ending FY2020. Going forward, with current capacity utilisation at about 52 per cent, the penetration into new markets and retention of market share will remain a key monitorable.

Although the company is likely to be impacted on account of outbreak of Covid – 19 and an expected decline in volumes in FY2021, with the expected increase in realization per ton and EBITDA per ton, the profitability of the company is likely to improve in FY2021.

Acuité believes that while PCIL's operational performance over the near term may be impacted on account the lockdown situation across the country and the headwinds faced both on the demand and supply side, PCIL will benefit from its established presence across the country and pickup in demand for infrastructure industry from a medium to long term perspective.

Weaknesses

- **Elevated debt levels; Significant near term Debt Obligations**

  The tangible net worth of PCIL stood at ~Rs. 1168 Cr. as on 31 March, 2020 (Prov.). The gearing (debt to equity ratio) stood at 1.24 times as on 31 March 2020 (1.42 times as on 31 March, 2019). The total debt stood at ~Rs.1452 Cr as on 31 March, 2020 as against Rs.937 Cr as on 31 March 2017. Further, the sharp rise in debt levels is on account of capital expenditure incurred with respect to capacity enhancement, addition of WHR, packaging units, clinker units and vessel for transportation. Debt/EBITDA stood at 4.32 times for FY2020 (Prov.) as against 4.85 times in the previous year. Besides the on balance sheet borrowings, PCIL has significant contingent liabilities on account the guarantees provided to its group companies. Acuité has noted the breaches in some of financial covenants under the financing documents and also understands that the process to seek waiver on the breach is currently being undertaken. Acuité believes that with the management deferring the capex plans in the Northern region, the Debt/EBITDA levels are likely to witness a swift improvement over the medium term aided by the expansion of profit per ton.

  The increase in total debt has led to increase in interest cost to Rs.185 Cr in FY2020 (Prov.) from Rs.60 Cr. in FY2017. The increase in interest cost coupled with declining EBITDA has resulted in deterioration in coverage indicators, marked by interest coverage of 1.82 times for FY2020 (Prov.) as against 2.31 times in the previous year and DSCR of 0.88 times for FY2020 (Prov.) as against 1.95 times for FY2019. However, the company has availed moratorium under RBI guidelines for the repayment of principal and interest till August 2020. Post adjustment of March repayments, the DSCR stood at 1.11 times for FY2020 (Prov.). Acuité believes, the Debt / EBITDA to improve in FY2021 and FY2022 and remain in the range of 3.5 to 2.5 times. This is on account of expected increase in EBTIDA margins due to cost optimization steps taken by the company and expected improvement in realization per ton. Any major deviation in the Debt / EBITDA will impart a negative bias to the rating. Further, Acuité believes that management of liquidity and gradual deleveraging will be a key monitorable.

- **Susceptibility of cash flow to Government spending on Infrastructure, real estate**
  The cash flows of PCIL are highly dependent on the Central and State Government's focus on infrastructure and real estate segment. The infrastructure and real estate sectors have been significantly disrupted on account of outbreak of Novel Coronavirus (COVID – 19) followed by nationwide lockdown situation. The future flow of orders are linked to level of Government spending on infrastructure and real estate. While the Government has recognized the need for quality infrastructure and has identified infrastructure development as a key focus area, in the event of higher than expected fiscal strain, the government may be constrained to slow down its pace of infrastructure development which in turn could result in moderation of the flow of orders for players such as PCIL. Further, the company also faces stiff competition from various large companies' presence in the same region such as UltraTech Cement Limited, ACC Limited, Ramco Cement Limited, Chettinad Cement Corporation Limited and Dalmia Bharat India Limited among other local players as well.

Liquidity Position - Adequate

PCIL's cash accruals are expected to remain in the range of Rs 230 to 330 Cr per fiscal over the medium term, while cash and cash equivalents were Rs 65 Cr as on March 31, 2019. Average utilisation of the bank limit of was high at around 92 per cent during the last six month period through April 2020. The company has long term repayment obligation of around Rs 183 to Rs 192 Cr each in fiscals 2021 and 2022. Cash accrual, cash and cash equivalents, and unutilised bank lines should be adequate to meet funding requirements. Further, the company operates in a negative working capital cycle.

Rating Sensitivities

- Ability to significantly improve the capacity utilization levels
- Any further deterioration in financial risk profile

Material Covenants

Sr. No.	Parameter	Acceptable level for covenant as per sanction letter (FY2020 onwards)
1	Debt Service Coverage Ratio	>=1.30
2	Interest Coverage Ratio	>=3.00
3	Fixed Asset Coverage Ratio	1.25
4	Debt/EBITDA	<=2.50
5	Current Ratio	>=1.33

Outlook: Stable

Acuité believes that PCIL is likely to maintain a 'Stable' outlook over the medium term backed by its experienced management and established brand in the cement industry. The outlook may be revised to 'Positive' in case of higher than anticipated improvement in EBITDA per ton thereby leading to an improvement in debt protection indicators. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in debt coverage indicators from the current levels or if the company is unable to the ramp up the operations from its new capacity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2164.81	1777.78
PAT	Rs. Cr.	94.05	145.45
PAT Margin	(%)	4.34	8.18
Total Debt/Tangible Net Worth	Times	1.42	1.21
PBDIT/Interest	Times	2.31	3.90

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-59.htm
- Consolidation of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

***Annexure 1 – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	30-03-2017	11.05	31-12-2028	760.00	ACUITE A+ / Stable (Assigned)
Term Loan	26-12-2017	10.55	31-06-2021	3.00	ACUITE A+ / Stable (Assigned)
Term Loan	26-12-2017	11.35	31-12-2028	245.00	ACUITE A+ / Stable (Assigned)
Term Loan	13-11-2017	10.95	31-12-2028	91.00	ACUITE A+ / Stable (Assigned)
Term Loan	06-08-2018	9.75	31-05-2023	8.00	ACUITE A+ / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	143.00	ACUITE A+ / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A+ / Stable (Assigned)
WCDL	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A+ / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A+ / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	69.00	ACUITE A+ / Stable (Assigned)
Proposed Fund Based	Not Applicable	Not Applicable	Not Applicable	237.00	ACUITE A+ / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE A1+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A1+ (Assigned)
Proposed Non-Fund Based	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A1+ (Assigned)

***Annexure 2 – List of subsidiaries and associates that have been considered for consolidation:**

Sr. No.	Name of Company /Firm	Relationship
1	Pioneer Cement Industries Limited	Subsidiaries
2	Marwar Cement Limited	Subsidiaries
3	Parasakti Cement Industries Ltd	Associates

Contacts

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.