

Press Release
PENNA CEMENT INDUSTRIES LIMITED
July 20, 2023



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1220.00	ACUITE A- Stable Downgraded Negative to Stable	-
Bank Loan Ratings	280.00	-	ACUITE A2+ Downgraded
Total Outstanding Quantum (Rs. Cr)	1500.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to 'ACUITE A-' (read as ACUITE A minus)' from 'ACUITE A+' (read as ACUITE A 'plus') and its short-term rating to 'ACUITE A2+' (read as ACUITE two plus)' from ACUITE A1 (read as Acuite A one) on the Rs.1,500.00 Cr bank facilities of Penna Cement Industries Limited (PCIL). The outlook is revised from 'Negative' to 'Stable'.

Reason for rating downgrade and outlook revision

The rating downgrade reflects significant deterioration in the operating performance of the company amidst stable market conditions and increasing challenges in sustenance of its financial risk profile. The company witnessed a decline of about 37% in its revenue to Rs.2,009 Cr which also remains substantially lower than Acuite's expectations. On the other hand, the regional demand is estimated to have grown at around ~12% aided by healthy investments in housing and infrastructure sector in the southern region. The capacity utilization levels of the company remained at 39% in FY 2023E as against 67% in the previous year. The company could only sustain the utilization levels at Ganeshpahad unit, while all other units remained utilized between 20-40%. At the same time, the debt levels have remained continuously high with absolute debt levels rising to about Rs 1,467 Cr as of March 31, 2023E as compared to Rs 1,260 Cr as of March 31, 2022. The short-term debt also remained almost fully utilized at around 98% despite the lower capacity utilization. The high reliance on debt and deterioration in operating performance has led to alarming deterioration in debt to EBITDA levels. The debt to EBITDA levels has deteriorated to 13.9 times in FY 2023E as compared to 2.66 times in FY 2022.

In FY2023E, headwinds like higher coal and fuel costs and PCIL's inability to pass on the cost escalation to the customers has resulted in low EBITDA/tonne of Rs.265/MT in FY2023E as compared to Rs.699/MT in FY2022. Accordingly, the company generated absolute EBITDA of Rs.103 Cr (FY 2022: 470 Cr) and PAT losses of Rs.182 Cr (FY 2022: Rs.24 Cr) in FY 2023E. PCIL has incurred high capital expenditure towards increasing its manufacturing capacity in during last two years through FY 2023E and the capex levels are estimated to remain high due to its new capacity at Marwar Cement Limited. Acuite believes that the improvement in utilization levels remains imperative to the sustenance of fixed costs over the medium term and consequent improvement in EBITDA levels, which remains a key rating sensitivity factor.

Although, the gearing and debt protection indicators remain muted in FY 2023E, as reflected by DSCR being below unity and inadequacy of the cash accruals towards maturing repayment obligations; Acuite however observes that the liquidity profile of the company is supported by fund infusion from promoters. Acuite learns during its management interaction that, In FY2024, promoters have infused Rs. 212.90 Cr as quasi-equity, and another Rs. 100 Cr is

expected in the near term to support the working capital operations and debt repayment.

Acuite also learns from the management interaction that additional funds would be infused by the promoters through monetisation of their personal assets to support the working capital operations and existing debt-reduction towards the end of FY2024.

Acuite believes that the timely and continuous fund infusion remains a key monitorable over the near to medium term.

About Company

Incorporated in 1991 by Mr. P Prathap Reddy, PCIL is an integrated cement manufacturer operating 4 Cement units and 2 grinding units spread across 3 states of Andhra Pradesh (Talaricheruvu, Boyareddypali and Krishnapatnam), Telangana (Ganeshpahad and Tandur), and Maharashtra (Patnas). The aggregate installed capacity for cement stands at 10 Million Metric tonne per annum (MMTPA) and clinker capacity of 7.8 MMTPA as on March 31, 2023. PCIL also has a 77 Mega –watt (MW) coal-based captive power generation plant in Ganeshpahad (AP) and Waste Heat Recovery system (WHR) plants with an aggregate installed capacity of 32MW in Ganeshpahad (Telangana) and Boyareddypali (AP). Further, PCIL has 7 captive limestone mines under PCIL and 4 under its subsidiary – Marawar Cement Limited located near its manufacturing units. PCIL, also, has portbased facilities which includes 4 operational packaging terminals in ports of Cochin, Gopalpur, Colombo and Karaikal.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at this rating, Acuité has consolidated the business and financial risk profiles of Penna Cements Industries Limited (PCIL) and its subsidiaries - Pioneer Cement Industries Limited, Marwar Cement Limited and Singha Cement (Pvt) Limited. The consolidation is in the view of common management, same line of business, strong operational and financial linkages between the entities, future expansion plans under the subsidiaries and management stated posture of extension of support to these subsidiaries

Key Rating Drivers

Strengths

One of the integrated Southern region player with extensive distribution network

PCIL's cement production capacity is estimated to represent ~5-5.5 percent of the total cement production capacity in South India comprising Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Andaman and Nicobar Islands, and Pondicherry. PCIL, a regional player, has a strong hold in the local market they are operating in, due to cost leadership and market advantage along with close proximity to raw material sources. Besides, PCIL operates an integrated facility supported by infrastructure for limestone extraction and crushing, production of clinker and cement by inter-grinding clinker along with fly ash/ slag/ gypsum, packing facilities, and a quality control lab. PCIL operates 4 integrated manufacturing facilities and 2 grinding units with an aggregate cement production capacity of 10.00 MMTPA, as of March 31, 2023.

PCIL's business operations are supported by an extensive sales and distribution network spread across South, West, and East India. PCIL's cement products are sold to the trade segments (which typically includes retail customers and wholesale customers including dealers and distributors who then resell products to retail customers) and the non-trade segments (which typically includes government and private infrastructure projects, real estate companies, and ready-mixed concrete stations).

Acuité believes that PCIL's established position in the Southern region and Integrated facilities along with extensive distribution network will aid its business operations going forward.

Strategically located manufacturing facilities with proximity and access to its key raw materials

PCIL's facilities are strategically located to enable accessing the markets in Hyderabad, Vishakhapatnam, Bengaluru, Chennai, Pune, and Ahmednagar, which provides significant convenience in logistics management and cost benefits. Each of its facilities are well connected to both the national highway and railway network providing easy transportation of laterite, coal, clinker, gypsum, slag and cement, as required. In addition, its Krishnapatnam grinding unit is located at approximately less than 280 kms, 290 kms and 320 kms from its integrated manufacturing facilities at Talaricheruvu, Boyareddypalli and Ganeshpahad, respectively, while the Patas grinding unit is located at approximately less than 418 kms from its Tandur facility. With Krishnapatnam grinding unit, packing terminals at Cochin, Gopalpur, Karaikal and Colombo ports and a proposed packing terminal at the Kolkata port, PCIL is likely to become one of the few market players in India with superior port-based logistics infrastructure and distribution facilities. Efficient raw material sourcing of limestone, gypsum and fly ash, and coal, near its integrated manufacturing facilities, has a direct result on cost of production and profitability as well as ensuring protection against operational risks. Further to meet its coal requirements, PCIL's facilities are supported by a 77.00 MW captive power plant, at Ganeshpahad facility, along with WHR units with an aggregate capacity of 32.00 MW, at Ganeshpahad and Boyareddypalli facilities. PCIL met ~23 percent of its power requirements through captive sources in FY2023E against 48 percent in FY2022.

Further, it optimizes its coal procurement by sourcing coal and pet coke from the international markets and coal through coal linkages with Singareni Collieries Company Ltd (SCCL) located in the state of Telangana. PCIL depends majorly on imports for its coal requirement; it imported 78.94 percent of its total coal required in FY2023E against 91.79 percent in the previous year. For Limestone, PCIL has 7 captive long term mining leases for its integrated manufacturing facilities, which are pit head mines having a lead distance of within 6 kilometres, providing its integrated manufacturing facilities with a stable and timely supply of limestone in a cost-efficient manner. The residual reserves of PCIL's mining leases with respect to the mines currently operated are sufficient for its current production capacity for upto next 3 decades, based on the stipulated amount of annual excavation specified in its mining leases. In addition to utilizing fly ash from captive power plant at Ganeshpahad facility, PCIL procures fly ash from other coal-fired power plants located near its integrated manufacturing facilities. For Krishnapatnam grinding unit, the company has been able to access relatively low-cost fly ash by virtue of being in close proximity to fly ash sources. Further, it obtains gypsum and slag from nearby fertilizer companies and steel manufacturing plants, respectively.

Acuite believes that PCIL's strategically located manufacturing units and packing terminals, together with port-based logistics infrastructure and distribution strategy, would provide PCIL access to the coastal markets and will also enable it to serve markets in East and West India along with improvement in its logistic and EBITDA per MT cost.

Funding support from the promoters

During FY2023E, NCDs of Rs. 350 Cr were issued against planned Rs. 600 Cr, and the proceeds were utilized towards capital creditors repayment of Rs. 190 Cr and long-term working capital of Rs. 110 Cr. NCDs have been subscribed to by Edelweiss Alternative Investments, having a tenor of 5 years. For the ongoing capex in its subsidiary, Marwar Cement Limited, the company has availed a sanction of Rs. 1430.20 Cr from Canara Bank. The total project cost is Rs. 2046.70 Cr. The funding pattern is equity to debt of 30:70. Of the equity portion (30 percent), which is Rs. 616.50 Cr, the promotor has already spent around Rs. 400 Cr. The balance would be brought in as and when required. The capex is expected to be completed by the end of FY2025. Further, promoters have brought in Rs. 212.90 Cr in FY2024, and another Rs. 100 Cr is expected by the end of August 2023 as unsecured loans (subordinated to bank borrowings and hence considered quasi-equity) to support the incremental working capital requirements. Also, additional funds would be brought in towards the end of FY2024, for reduction in debt by the promoters through monetisation of their personal assets.

The infusion of funds by the promoters in the form of quasi equity along with reduction in existing debt is expected to de-leverage the balance sheet and counter the additional

load-up of Rs. 1430.20 Cr of debt towards capex onto the balance sheet of PCIL. Acuite believes that the timely receipt of expected funding support by the promoters will remain a key rating monitorable.

Weaknesses

Highly susceptible to volatility in input cost and realisations, in the cement industry
Capacity addition in the cement industry tends to be periodic because of the long gestation period for setting up a facility and the numerous players adding capacity during the peak of a cycle. This leads to unfavorable price cycles for the sector. Moreover, profitability remains susceptible to volatility in input prices, including raw materials, power, fuel, and freight. Realizations and profitability are also affected by demand, supply, offtake, and regional factors. PCIL remains exposed to fluctuations in fuel prices in addition to the risks of volatile cement prices, given the oversupply situation in South India. PCIL reported lower-than-estimated Earnings before Interest, tax, and depreciation (EBITDA) in FY2023E at Rs. 103 Cr and missed Acuite's estimates by a huge margin. The EBITDA margin was lower than the estimates due to higher-than-expected coal and pet coke prices persisting through FY2022 and FY2023. The EBITDA/MT declined to Rs.265/MT in FY2023E as compared to Rs.699/MT in FY2022. The aforesaid decreased due to power cost/ MT rising from Rs.1,661/MT in FY2022 to Rs.2333/MT in FY2023E. The power and logistic costs have been the major contributors to its total costs, forming around 45 percent of its total cost in FY2023E compared to 35 percent in FY2022. Acuite believes that PCIL's ability to do better inventory and price management and its ability to pass on the price hikes will remain crucial for the rating over the medium term.

Highly Leveraged Capital Structure and weakening of key credit metrics

The tangible net worth of PCIL stood at ~Rs.1006 Cr as on March 31, 2023E against Rs.1084 Cr as on March 31, 2022. The gearing (debt to equity ratio) moderated to 1.46 times as on March 31, 2023E against 1.16 times in FY2022. The total debt stood at ~Rs.1467 Cr as on March 31, 2023E against 1261 Cr as on March 31, 2022. The debt/EBITDA deteriorated to 13.90 times for FY2023E against 2.66 times for FY2022, primarily on account of net losses and increased indebtedness. The debt service coverage ratio (DSCR) stood at 0.41 times in FY2023E against 0.95 times in FY2022 and interest coverage ratio at 0.49 times in FY2023E against 2.08 times in FY2022. The NCA/TD stood at (0.02) times in FY2023E against 0.14 times in FY2022.

Acuite believes, that the funding support by the promoters, will be crucial to aid operations and reduction in gearing levels over the medium term.

ESG Factors Relevant for Rating

PCIL is under the process of having adequate policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has designated committees for CSR, Risk management, stakeholders relationship, nomination and remuneration amongst others. The company has a total of 10 number of board of directors out of which 5 number are independent and 2 number are female directors.

Rating Sensitivities

Positive

- Improvement in operational performance with improvement in capacity utilisation and EBITDA/MT
- Timely fund infusion by promoters to support operations and reduction in existing debt
- Improvement in leverage and solvency position of the company

Negative

- Lower than expected/or delayed funding support from promoters.
- Lower-than-expected EBITDA/MT leading to further strain in credit risk profile.

Material Covenants

None.

Liquidity Position

Stretched

PCIL's cash accrual generation has remained below its debt-repayment obligation in FY2023E. Going ahead, cash accruals are expected to remain in the range of Rs.110-213 Cr over the medium term against its estimated debt obligations ranging between Rs.194 -280 Cr over the same period. The company operates in a negative working capital cycle. Average utilisation of the bank limits remained high at around 98 per cent during the last 12-month period through March 2023, and non-fund based limit utilisation at 84 percent during the same period, indicating a limited cushion. However, support from promoters is expected to meet any cash flow mismatch.

Outlook: Stable

Acuité believes that PCIL is likely to maintain a 'Stable' outlook over the medium term backed by expected recovery in the utilization levels leading to better absorption of fixed costs and consequent improvement in EBITDA/Tonne and continuous funding support from the promoters. The outlook may be revised to 'Positive' in case of higher-than-anticipated improvement in EBITDA/tonne, thereby leading to an improvement in debt protection indicators and improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any delay's completion of capital expenditure or higher than anticipated leverage levels.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	3204.21	2476.40
PAT	Rs. Cr.	23.72	152.07
PAT Margin	(%)	0.74	6.14
Total Debt/Tangible Net Worth	Times	1.16	1.17
PBDIT/Interest	Times	2.08	2.63

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

None

Any Other Information

Not applicable

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Dec 2022	Letter of Credit	Short Term	20.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Term Loan	Long Term	66.56	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Proposed Bank Facility	Long Term	94.34	ACUITE A+ Negative (Downgraded from ACUITE A+ Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Letter of Credit	Short Term	180.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Cash Credit	Long Term	16.00	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Working Capital Demand Loan	Long Term	24.00	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Term Loan	Long Term	52.50	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Term Loan	Long Term	554.06	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Bank Guarantee	Short Term	20.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Cash Credit	Long Term	100.00	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Cash Credit	Long Term	130.00	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Term Loan	Long Term	182.54	ACUITE A+ Negative (Downgraded from ACUITE AA- Stable)
	Letter of Credit	Short Term	50.00	ACUITE A1 (Downgraded from ACUITE A1+)
03 Sep 2021	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	115.00	ACUITE A1+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	24.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	85.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
	Cash Credit	Long Term	65.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	16.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
	Term Loan	Long Term	240.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
	Term Loan	Long Term	725.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
	Cash Credit	Long Term	130.00	ACUITE AA- Stable (Upgraded from ACUITE A+ Stable)
		Long		

08 Jul 2020	Letter of Credit	Term	69.00	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	143.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	245.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	65.00	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	16.00	ACUITE A+ Stable (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A1+ (Assigned)
	Proposed Bank Facility	Long Term	237.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	760.00	ACUITE A+ Stable (Assigned)
	Working Capital Demand Loan	Long Term	24.00	ACUITE A+ Stable (Assigned)
	Proposed Bank Facility	Short Term	44.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	60.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	115.00	ACUITE A1+ (Assigned)
	Term Loan	Long Term	8.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	91.00	ACUITE A+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Downgraded
IDBI Bank Ltd.	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+ Downgraded
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A- Stable Downgraded Negative to Stable
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A- Stable Downgraded Negative to Stable
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	130.00	ACUITE A- Stable Downgraded Negative to Stable
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	180.00	ACUITE A2+ Downgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Downgraded
IDBI Bank Ltd.	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A2+ Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	181.88	ACUITE A- Stable Downgraded Negative to Stable
SBM Bank (India) Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	45.00	ACUITE A- Stable Downgraded Negative to Stable
Hero Fincorp Ltd.	Not Applicable	Term Loan	13 Nov 2017	10.5	31 Dec 2028	Simple	60.31	ACUITE A- Stable Downgraded Negative to Stable
Yes Bank Ltd	Not Applicable	Term Loan	30 Mar 2017	10.5	31 Dec 2028	Simple	498.65	ACUITE A- Stable Downgraded Negative to Stable
L&T								ACUITE A- Stable

Finance Limited	Not Applicable	Term Loan	26 Dec 2017	10.5	31 Dec 2028	Simple	164.16	Downgraded Negative to Stable
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Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Pradeep Singh Senior Analyst-Rating Operations Tel: 022-49294065 pradeep.singh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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