Press Release

Shri Keshav Cements and Infra Limited (SKCIL)

January 12th, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	238.56 (Enhanced from Rs.169.77 crore)	IVR BB+/ Positive (IVR Double B Plus with Positive Outlook)	Reaffirmed	Simple
Total	**Rs.238.56 Crore (Rupees Two Hundred & Thirty-Eight Crore and Fifty-Six Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank loan facilities of Shri Keshav Cements and Infra Limited (SKCIL) derives strength from experienced promoters & management team, healthy profitability margins supported by revenues from solar power, moderate financial risk profile. The ratings however constrained by project implementation risk, elongated working capital cycle, revenues from solar power exposed to vagaries of weather conditions and input costs related risk and intense competitive industry.

The positive outlook reflects overall improvement in the credit profile and likely to continue at the current levels over next 12-18 months despite debt led capex. The improvement in credit profile during FY23 is driven by improvement in revenue and EBITDA. Capital structure marked by overall gearing and TOL/TNW has improve to 2.53x and 3.25x respectively at the end of FY23 (FY22: 2.92x and 3.50x).

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operation along with sustenance in profitability margins thereby leading to overall improvement in cash accruals.
- Improvement in the capital structure and debt protection metrics
- Prudent management of cash conversion cycle and working capital requirements

Downward Factors

- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics.
- Stretch in the working capital cycle negatively impacting liquidity position
- Any cost or time overrun impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and management team**

  The company is promoted by Mr. Hanamantsa D. Katwa, Mr. Venkatesh H Katwa, Mr. Vilas H. Katwa and Mr. Deepak H. Katwa. The Management of the company is handled by directors who have experience in Cement, Real Estate, Non-Banking Finance and IT development services for more than two decades. Apart from directors, the company has a well experienced and qualified management team to execute and monitor the work undertaken for satisfactory completion.

- **Healthy profitability margins supported by revenues from solar power**

  The Company primarily derives majority of its revenues from Cement & Solar Power segments. The EBITDA margins though declined yet remained healthy at 28.48% in FY23 (vis-à-vis 31.06% in FY22) mainly due to stable operating profit generated from solar segment as the company sells excess solar power on Grid to various private clients located in the vicinity. Whereas the cement division has marginally impacted as fuel prices was increased due to Russia–Ukraine war. Further the company expect to improved EBITDA margin as company has switched its fuel from coal to petcoke during FY23. This can be evident that during H1FY24, the EBITDA margin of the company stood at 32.29%.

  However, the net profit of the company has significantly decline from Rs.9.10 crore in FY22 to Rs.2.91 crore in FY23 mainly on account one-time adjustments of deferred tax was capitalized during last quarter of FY23 by the company on its investments in solar segment. Further, the company has already achieved net profit of Rs.2.74 in H1FY24.

- **Modest financial risk profile**

The revenue has improved by 8% on year-on-year basis and stood at Rs.123.24 crore in FY23 (FY22: Rs.113.79 crore) due to higher income generated from solar & cement segment. Further the company has posted total operating income of Rs.56.42 crore in H1FY24. Moreover, post commissioning of ongoing capex the company expected scale up its operations and projected to achieved revenue more than Rs.300 crore for FY25 and FY26.

The capital structure marked by overall gearing ratio on TOL/TNW ratio has marginally improved yet remained moderate at 2.53x and 3.25x respectively as on March 31, 2023 (FY22: 2.91x and 3.50x respectively) due to repayment of loans. The debt protection metrics marked by interest coverage ratio and total debt to gross cash accruals remained stable at 1.86x and 8.40x respectively in FY23 (FY22: 1.85x and 10.24x respectively), Going forward the capital structure and debt coverage indicators expected to be improved and remain at comfortable level backed by improvement in profitability margins leads to improvement in reserves and thereby in networth base of the company.

Key Rating Weaknesses

- **Project implementation risk**

  SKCIL has undertaken capex amounting to Rs.124.41 crore funded through debt (64%) and balance through equity to increase the cement capacity 1MTPA from current 0.35MTPA. SKCIL has already to tied up for the debt for the capex and raised the equity through preferential allotment. As per management, SKCIL has spent around Rs.51.48 crore on capex till December 31st, 2023. The new capacities are likely to commissioned by June 2024. Thus, the ability to complete the construction work in timely manner, without cost and time overrun for the said project is critical from credit perspective.

  IVR notes that the said capex enables SKCIL to improve its profitability as expansion will result into cost efficiency.

- **Working capital intensive nature of operations**

  The operations of the firm are working capital intensive in nature with funds being blocked in inventory and debtors. Further the operating cycle remained elongated at 121 days in FY23 (FY22: 126 days), mainly due to higher inventory holding period, as in cement industry mines are not operational around 3-4 months during the monsoon period so the company keep stock of limestone for 4-6 months and for fuel either it requires to import or purchased from Bangalore Refinery Petrochemical Limited and keep stock of around 2-3 months, this resulted into higher inventory holding of raw material days.

- **Revenues from Solar Power is exposed to vagaries of Weather conditions**
  Basic feature in solar power plants is that the revenue generation is directly linked with the prevalent weather conditions & solar radiations levels. Other parameters like design of the plant, inverter efficiency and module degradation can lead to losses. Hence the revenue generated from solar plant is vulnerable to weather conditions.

- **Input costs related risk and Intense competitive industry**
  The profitability is susceptible to volatility in input costs, such as material, power, fuel and freight costs in line with the industry. Cement industry is one of the highly competitive markets in India. Many players in the industry have huge amounts of capital invested in the business which raises the exit barrier for the companies and hence the companies compete aggressively.

Analytical Approach: Standalone

Applicable Criteria:

Criteria for assigning rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The company generates sufficient cash accruals in order to meet its debt obligation in the past. Further the company maintains sufficient cash and bank balance to meet its liquidity requirements. The average bank limit utilisation for the working capital facilities remained around 68.79% during the last twelve months ended as on Decembers 31st, 2023. The projected average DSCR remained more than 1.25x indicate comfortable liquidity position of the company in meeting its debt obligations. Further the current ratio remained above unity level as on March 31, 2023. Thus, the overall liquidity position of the company remained Adequate.

About the Company

Incorporated in the year 1993 Shri Keshav Cement & Infra Limited (SKCIL), {formerly known as Katwa Udyog Limited} is the public limited company is engaged in the manufacturing of cement and solar power generation and distribution in the state of Karnataka, India. The cement plants are located at Bagalkot district, Karnataka and the solar power plant is located at Koppal, Karnataka. The company supplies cement in North Karnataka, Coastal Karnataka, Goa and some parts of Maharashtra. The company owns three very renowned regional brands of cement "Jyoti Power" "Jyoti Gold" & "Keshav Cement". Keshav Cement" is a premium brand of the company.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Audited)	30-Sept-2023 (Unaudited)
Total Operating Income	113.79	123.24	56.42
EBITDA	35.35	35.10	18.22
PAT	9.10	2.91	2.74
Total Debt	177.03	163.99	–
Adjusted Tangible Net worth	60.85	64.80	–
EBITDA Margin (%)	31.06	28.48	32.29
PAT Margin (%)	7.84	2.32	4.77
Overall Gearing Ratio (times)	2.91	2.53	–

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Nil.

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	**Name of Instrument / Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2023-24**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**
Press Release					**06-Sept-2023**	**14-Jun-2022**	**–**
1.	Fund Based – Rupee Term Loans	Long Term	181.70	IVR BB+/ Positive	IVR BB+/ Positive	IVR BB+/ Stable	–
2.	Fund Based – Working Capital Term Loans	Long Term	30.16	IVR BB+/ Positive	IVR BB+/ Positive	IVR BB+/ Stable	–
3.	Fund Based – Cash Credit	Long Term	26.70	IVR BB+/ Positive	IVR BB+/ Positive	IVR BB+/ Stable	–

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Fund Based – Rupee Term Loans	–	–	Jan-2037	181.70	IVR BB+/Positive
Long Term – Fund Based – Working Capital Term Loans	–	–	Dec-2027	30.16	IVR BB+/Positive
Long Term – Fund Based – Cash Credit	–	–	–	26.70	IVR BB+/Positive

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-skcil-jan24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.