J.K. Cement Limited

August 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,620.01 (Reduced from 2,846.36)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	625.00 (Enhanced from 350.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**3,245.01 (₹ Three thousand two hundred forty-five crore and one lakh only)**		
Non-convertible debentures	108.00 (Reduced from 144.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	80.00 (Reduced from 100.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	250.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total long-term instruments	**438.00 (₹ Four hundred thirty-eight crore only)**		
Commercial paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out)	150.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**650.00 (₹ Six hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings for the bank facilities and instruments of J.K. Cement Limited (JKCL) continues to take into account its established presence in the grey cement segment across diversified geographical markets as well as its dominant position and strong brand image in white cement and wall putty segments, thereby ensuring a diversified product mix providing healthy margins. The ratings also consider the extensive experience of the promoters in the cement business, comfortable financial risk profile, and strong liquidity position.

The rating is, however, constrained by the project risk associated with the proposed greenfield capacity augmentation plan, weak financial profile of its subsidiary, J.K Cement Works Fujairah (JKCWF, rated 'CARE AA+ (CE); Stable'), cyclicality associated with the cement industry, exposure to volatility in the input costs, dependence of the demand of cement on the construction activity and infrastructure spends in the economy.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in leverage levels, going forward, with overall gearing on consolidated basis below 0.5x and debt to PBILDT levels below 1x on a sustained basis.
- Increase in the scale of operations leading to leadership position in the regions in which the company operates.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any significant deterioration in the profitability or liquidity position of the company on a sustained basis.
- Any significant weakening of the capital structure with overall gearing increasing above 1x and net debt/PBILDT of above 2.5x on a sustained basis.
- Structural changes in the industry impacting the profitability of the company.
- Delay in commissioning or delay in volume ramp-up of the new project being undertaken.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Strong market position with growing diversification in the grey cement segment and dominant position in the white cement and wall putty segments: The company has strong presence in the northern region and is amongst the top five cement manufacturers in the region, with Rajasthan, Haryana, Punjab and Delhi contributing more than 40% of the total sales of the company. The company also has presence in the western region in Gujarat and Maharashtra as well as in the southern region, in which Karnataka is a key market for the company. Furthermore, the company has a capex underway to add greenfield capacity aggregating to 4 million tonnes per annum (MTPA) integrated plant in the central region (expected to be operationalised by December 2022) through its wholly-owned subsidiary, Jaykaycem (Central), which will lead to increase in the company's presence in the central region and will drive its business growth going forward. Based on its capex plans, JKCL is expected to have a total grey cement capacity of about 18.7 million tonnes by FY23-end (refers to the period April 1 to March 31).

JKCL is one of the leading white cement manufacturers in India with an installed capacity of 1.48 MTPA. The company also produces wall putty, a value-added product of white cement, with an overall capacity of 1.33 MTPA. The white cement segment is characterised by a small industry with significant entry barriers, and consequently a duopoly structure as of now, which ensures healthy operating margins for the manufacturers. Moreover, a consistent growth in the white cement and wall putty segments has created a steady cash flow stream for JKCL, contributing significantly towards its PBILDT over the years, which also provides a cushion against volatility in the grey cement segment. Going forward, the company is expected to maintain its leadership position despite the competition that might arise from the paint manufacturers, especially in the putty segment.

Strong operational and financial performance driven by robust volume growth and realisation improvement during FY22 with capacity expansion to drive growth: The company has reported a total operating income (TOI) of about ₹7,900 crore during FY22 (refers to the period April 1 to March 31) on a consolidated basis achieving year-on-year growth of around 20%, driven by volume growth and realisation improvement. The overall sales volume of the company (including white cement and wall-putty segment) has achieved a robust growth of 17% during FY22 to 13.61 MTPA as against the sales volume of 11.63 MTPA achieved during FY21. The increase in the volume was on account of accretion of volumes from the additional capacity commissioned during the fiscal, which catered to the pent-up demand post relaxing of the pandemic-related restrictions. The utilisation level of the capacities stood at around 80%, which is higher than the industry level for FY22. JKCL, through its wholly-owned subsidiary, Jaykaycem (Central), is setting up a 4-MTPA integrated greenfield grey cement capacity, which will cater to the markets of Madhya Pradesh and Uttar Pradesh. This expansion will make JKCL a leading player in the highly consolidated and rural demand-driven Central market, increase its revenue diversification and fuel its future growth.

Although the PBILDT margin decreased, it remained comfortable at 18.03% in FY22 (PY: 23.33%) owing to increase in the prices of coal, petcoke, and diesel, which caused power and fuel as well as the freight costs to increase substantially. PBILDT per tonne decreased to ₹1,047 per tonne in FY22 from ₹1,314 per tonne in FY21 as a result of the high input cost, which the industry has been witnessing amid commodity inflation, muted realisations, a change in the product mix (higher grey cement), an increase in the employee costs and advertising overheads. While the company has taken price hikes in early April 2022, the same could not sustain for the entire Q1FY23 and were rolled back after some time. With fuel prices remaining high, CARE Ratings Limited (CARE Ratings) expects a continued year-on-year moderation in the PBILDT per tonne in the near term. The power and fuel cost per tonne and the freight cost per tonne increased by 21% and 9%, respectively, to ₹1,214 and ₹1,215 on per tonne basis. The PBILDT, profit after tax (PAT), and gross cash accruals (GCA) of the company for FY22 stood at ₹1,424 crore, ₹679 crore, and ₹1,113 crore, respectively (PY: ₹1,528 crore, ₹703 crore, and ₹1,069 crore, respectively).

Comfortable financial risk profile and strong liquidity position: The company's financial risk profile is marked by comfortable overall gearing of 1.06x as on March 31, 2022 (PY: 1.09x) and gross debt/PBILDT of 3.17x (PY: 2.60x) at a consolidated basis. The interest coverage moderated to 5.3x from 6.0x on account of the decline in profitability. Over the span of last 4-5 years, the overall gearing of the company has improved significantly from the level of 1.51x as on March 31, 2018. This improvement has been achieved despite capacity addition of 4.2 MTPA undertaken during FY19-FY21, which has strengthened the business profile of the company without moderation in the gearing level. Moreover, over these years, the company has generated and is maintaining a strong liquidity position with cash and current investments of around ₹938 crore as on March 31, 2022. The liquidity is expected to remain strong, meeting operational requirements as well as providing adequate buffer to undertake the proposed capex of 4 MTPA at cost outlay of around ₹2,970 crore (proposed to be funded via D:E of 1.3:1), which is expected to get operationalised ahead of schedule, i.e., by December 2022 against the original schedule of March 2023.

Experienced promoters and strong brand image: The promoters of JKCL have extensive experience in the business of cement manufacturing and marketing. JKCL also has an experienced and qualified management team, which has facilitated the company's growth over two decades. The company has a diversified presence in the grey cement segment across the northern, western, central and southern markets of India, covering over 19 states. It has established brands like 'JK Super Cement' and 'JK Super Strong Cement'. Besides, the company has a pan-India presence in the white cement and wall putty segments, which are sold under brand names, 'JK Cement White MaxX' and 'JK Cement Wall MaxX', respectively.

Industry Outlook

Owing to the strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to witness an upswing in demand in FY23. The industry is likely to move at high single-digit growth because of the thrust of government for infrastructure and strong traction in capital expenditure. On the supply side, aggressive capacity additions by large entities at a rate higher than demand growth may decrease capacity utilisation, thereby impacting the margins, especially for smaller entities, and further push consolidation. Various initiatives by the government are set to propel capital expenditure from private players. The industry is exposed to cyclicality in end-user industries, which is accentuated by the bunching of capacity additions, leading to their unevenness, which drives demand-supply imbalances. With commodity inflation continuing unabated, the sector currently is riddled with cost side issues, which will impact the margins of the cement players in FY23. The elevated cost inflation coinciding with seasonally weak quarter would pinch margins of the cement players more in Q2FY23. The ability of the players including JKCL to take price hikes to offset the cost increase remains a key monitorable.

Key rating weaknesses

Project risk attached to proposed capacity augmentation: The expansion project for setting up an integrated greenfield capacity aggregating to 4 MTPA is being undertaken in JKCL's wholly-owned subsidiary - JaykayCem (Central) Limited. The additional capacity is planned to be undertaken in the central region and is expected to benefit the company to strengthen its market presence in Uttar Pradesh and Madhya Pradesh as well as lead to freight cost savings. The project is estimated to be set up at a cost outlay of around ₹2,970 crore (proposed to be funded via D:E of 1.3:1) and is expected to be operationalised by December 2022 against original schedule of March 2023. Out of ₹2,970 crore, an amount of ₹1,535 crore has been incurred till March 31, 2022, with financial closure in place. With a large part of the capex already incurred, the company remains only moderately exposed to the project execution risk. With significant experience of the promoters and their strong liquidity position, the risks are, however, mitigated to an extent. Nevertheless, any cost and time outrun is a key monitorable going forward. Furthermore, with this, JKCL shall be a leading player in the rural demand-driven central market and also will be able to increase its revenue diversification. Despite debt addition on account of capex, the overall gearing is expected to remain around unity, as the net debt addition (net of debt repayment) during FY23-FY25 is not expected to be significantly higher and the tangible net worth is expected to improve further with plough back of profits.

JKCWF's weak operating performance and financial risk profile: JKCL, under its step-down subsidiary, JKCWF, had established a greenfield dual process cement plant in September 2014 at Fujairah, UAE, having an installed capacity of 0.6 MTPA of white cement or 1 MTPA of grey cement. JKCWF has reported net loss since the commencement of operations (net loss of Arab Emirate Dirhams (AED) 39.08 million and AED 34.13 million in CY21 and CY20, respectively). The operating levels have remained relatively low due to weak demand in the Gulf countries on account of subdued construction activity and high freight costs. Given the sub-optimal size of its facility, JKCWF has remained dependent on infusion of funds from JKCL for meeting its debt obligations in the near term. However, owing to abundant liquidity position, JKCL has already prepaid a major portion of outstanding term debt of JKCWF and targets to prepay the entire term debt during CY23.

Exposure to volatility in prices of coal and fuel cost as well as sales realisation prices: While JKCL has fuel supply agreements (FSA) to meet part of the coal requirement, it has a significant dependence on petroleum coke (sourced from domestic markets) and imported coal, thereby exposing the company to any adverse volatility in the prices of the commodities, which has witnessed price inflation in the recent past. Additionally, the company is meeting part of its fuel requirement through imports, which also exposes it to the risk of any adverse fluctuation in the exchange rates. Besides, its realisations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry. The availability of captive limestone mines at strategic locations mitigates the risk of cost inflation to some extent.

Liquidity: Strong

The liquidity position of the company continues to be strong with cash and liquid investments of ₹938 crore as on March 31, 2022. The average utilisation of fund-based working capital limits was comfortable at around 45% for 12 months ending June 30, 2022. As articulated by the management, the company would maintain free cash balances in the range of about ₹700-800 crore, and balance surplus cash would be expected to be utilised as equity contribution for future expansion plans or for prepayment of loans. The company has principal repayments of around ₹535 crore and ₹409 crore in FY23 and FY24, respectively, on a consolidated basis vis-à-vis GCA of ₹1,113 crore in FY22.

Analytical approach

Consolidated (Consolidation of J.K. Cement Limited and its subsidiaries owing to strong operational and strategic linkages between the parent and the subsidiaries being in the same line of business, same brands and common management and control). The subsidiaries being consolidated are as under:

S. No.	Name of companies/Entities	Subsidiary/Joint Venture/Associate	% shareholding by JKCL as on March 31, 2022
1.	JK Cement (Fujairah) FZC	Subsidiary	100%
2.	Jaykaycem (Central) Ltd	Subsidiary	100%
3.	JK Cement Works (Fujairah) FZC	Step-down subsidiary	90%
4.	J.K. White Cement (Africa) Ltd	Step-down subsidiary	90%

Applicable criteria
Policy on default recognition
Consolidation
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Cement
Manufacturing companies

About the company
JKCL (CIN No: L17229UP1994PLC017199), a part of the JK group (North), was incorporated in November 1994. JKCL has an installed capacity of 14.67 MTPA. It is also one of the leading white cement manufacturers with installed capacity of 1.48 MTPA and also has presence in wall putty segment with installed capacity of 1.33 MTPA. The company's grey cement plants are located at Nimbahera, Mangrol and Gotan in Rajasthan (aggregating 7.97 MTPA), Jhajjar in Haryana (1.50 MTPA capacity including split grinding unit at Jhajjar, commissioned in FY15), Muddarpur in Karnataka (3.0 MTPA), Aligarh in Uttar Pradesh (1.50 MTPA including spilt grinding unit) and Balasinor in Gujarat (0.7 MTPA, recently commissioned on October 8, 2020). The company's white cement plant, having a capacity of 0.88 MTPA is located at Gotan. The wall putty plant of 0.63 MTPA is located at Gotan and 0.7 MTPA at Katni, Madhya Pradesh (including additional 0.3 MTPA capacity commissioned in Katni in October 2020). JKCL, under its step-down subsidiary, J.K Cement Works (Fujairah), FZC UAE, has a dual process cement plant having interchangeable capacity of 0.6 MTPA of white cement or 1 MTPA of grey cement.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	6,549.46	7,902.42	NA
PBILDT	1,527.90	1,424.45	NA
PAT	703.10	679.21	NA
Overall gearing (times)	1.09	1.06	NA
Interest coverage (times)	6.04	5.28	NA

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	625.00	CARE A1+
Term loan-Long term		-	-	01-08-2033	2245.01	CARE AA+; Stable
Fund-based - LT-Cash credit		-	-	-	375.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07128	02-08-2013	10.50%	02-08-2023	15.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07136	08-08-2013	10.50%	08-08-2023	12.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07144	13-09-2013	11.00%	13-09-2023	21.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07151	01-10-2013	11.00%	01-10-2023	15.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07169	09-10-2013	11.00%	09-10-2023	30.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07177	09-10-2013	11.00%	09-10-2023	3.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07185	01-10-2013	10.50%	01-10-2023	12.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07193	06-05-2015	9.65%	06-05-2025	80.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE823G07201	23-07-2020	7.36%	23-07-2024	250.00	CARE AA+; Stable
Commercial paper-Commercial paper (Standalone)	INE823G14744	12-07-2022	5.65%	29-09-2022	50.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE823G14751	19-07-2022	5.68%	20-09-2022	50.00	CARE A1+
Commercial paper-Commercial paper (Standalone)		-	-	7-364 days	400.00	CARE A1+
Commercial paper-Commercial paper (Carved out)		-	-	7-364 days	150.00	CARE A1+

CareEdge RATINGS

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	375.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
2	Commercial paper-Commercial paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (07-Dec-21) 2)CARE A1+ (03-Aug-21)	1)CARE A1+ (15-Dec-20)	1)CARE A1+ (16-Dec-19)
3	Non-fund-based - ST-BG/LC	ST	625.00	CARE A1+	-	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (15-Dec-20)	1)CARE A1+ (16-Dec-19)
4	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
6	Term loan-Long term	LT	2245.01	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
7	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
8	Debentures-Non-convertible debentures	LT	108.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
9	Debentures-Non-convertible debentures	LT	80.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
10	Debentures-Non-convertible debentures	LT	250.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20) 2)CARE AA; Stable (09-Jul-20) 3)CARE AA; Stable (12-Jun-20)	-
11	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (25-Jan-22) 2)CARE A1+ (07-Dec-21) 3)CARE A1+ (07-Oct-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	**Stipulated Level** (In the event of an adverse deviation of more than 20% in any of the two convents indicated from the stipulated levels, an additional interest of 0.5% p.a. would be levied for the period of non-adherence.)
I. Total outside liabilities/Tangible net-worth	Maximum level of 3.50
II. Gross debt service coverage ratio	Minimum level of 1.20
III. Fixed assets coverage ratio (FACR) in respect of the fixed assets related to project charged to secure the facility	Minimum level of 1.25
B. Non-financial covenants	
I. Inclusion into board of directors	The borrower should not induct into its board a person whose name appears in the wilful defaulters list of RBI/CIBIL. In case, if such a person is already on the board of the borrower, it would take expeditious and effective steps for removal of that person from its board.
II. Events having material adverse effect on the business	The borrower shall keep the bank informed of the happening of any extraordinary events likely to have material adverse effect on its business for any financial year. "Materials Adverse Effect on its business" would mean adverse variation of 20% or more in the revenue of the borrower during a financial year compared with the previous financial year.
III. Change in management control	The borrower shall provide prior intimation to the bank regarding any change in its management control as a result of change in the equity share capital structure of the borrower if it leads to dilution in direct or indirect equity holding of the promoter group below 51%.
IV. Utilisation of loan funds	The borrower shall utilise the loan funds for the purpose for which it has been sanctioned. The borrower may temporarily invest the rupee term loan amount disbursed against facility in banks fixed deposit or liquid funds till its utilisation for the project with prior intimation to the lead bank.
V. New capex	The borrower shall inform the bank before undertaking any major new projects, implement scheme of any major expansion except those included in the funds flow statement submitted to the bank from time to time.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Debentures-Non-convertible debentures	Simple
4	Fund-based - LT-Cash credit	Simple
5	Non-fund-based - ST-BG/LC	Simple
6	Term loan-Long term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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