# JK Lakshmi Cement Limited

July 05, 2022

**Ratings**

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 1,309.56 | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Short Term Bank Facilities | 850.00 | CARE A1+ (A One Plus) | Reaffirmed |
| **Total Bank Facilities** | **2,159.56 (₹ Two Thousand One Hundred Fifty-Nine Crore and Fifty-Six Lakhs Only)** | | |
| Non Convertible Debentures | - | - | Withdrawn |
| **Total Long Term Instruments** | **0.00 (₹ Only)** | | |
| Fixed Deposit | 100.00 | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| **Total Medium Term Instruments** | **100.00 (₹ One Hundred Crore Only)** | | |
| Commercial Paper (Carved out)* | 175.00 | CARE A1+ (A One Plus) | Reaffirmed |
| **Total Short Term Instruments** | **175.00 (₹ One Hundred Seventy-Five Crore Only)** | | |

Details of instruments/facilities in Annexure-1

## Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of JK Lakshmi Cement Limited (JKLC) continues to derive strength from the company's experienced promoters, its strong brand image, its diversified presence in the Northern, Western and Eastern Indian markets, and strong operating efficiencies in terms of freight and power consumption parameters, though the same moderated in FY22 in-line with the input cost pressures prevalent in the industry.

Furthermore, the ratings takes into account the company's comfortable financial risk profile over the past few years, leading to a below unity net gearing level and comfortable net debt/profit before interest, lease rentals, depreciation and taxation (PBILDT), which stood at 0.29x and 0.74x levels, respectively, as on March 31, 2022. The ratings further factor in the sustained operational performance driven by the company's volume growth across regional markets and higher sales realisation amid cost pressures during FY22. The sustained financial performance has led to a built-up of strong liquidity position at a consolidated level, thereby enabling the company to undertake the proposed capex of 2.5 million tonne per annum (MTPA) in Udaipur Cement Works Limited (UCWL) over the next two and a half years comfortably, without significantly increasing the consolidated gearing. The ratings also consider the improvement in the operational risk profile of JKLC's subsidiary, ie, UCWL, resulting in a healthy contribution of cash accruals at a consolidated level on a sustained basis now.

The ratings are, however, constrained by the project risk associated with the proposed capacity augmentation plan in UCWL, susceptibility to risks relating to varying input costs and realisations, and the cyclicality in the cement industry, which leads to variability in the profitability.
The rating on NCD (INE786A07344) is withdrawn as the same has been paid and there is no outstanding against the rated instrument.

## Key rating sensitivities

**Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Increase in capacities, leading to improved market share in the regions of operation.
- Sustained growth in top-line by around 15-20% per annum while maintaining profitability margins at over 20%.
- Improvement in the capital structure, leading to a decline in net overall gearing to below 0.20x.

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

**Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade**

- Deterioration in the capital structure or increase in the net overall gearing levels beyond 0.5x on a consolidated basis.
- Substantial decline in the PBILDT margins below 15-16% on a sustained basis, leading to weakening of debt coverage indicators.
- Substantial decline in sales volume, resulting in lower capacity utilisation of plants and decline in the total operating income (TOI) on a sustained basis.

## Detailed description of the key rating drivers

**Key rating strengths**

**Experienced promoters and strong brand image:** JKLC's promoters have had an extensive experience of about four decades in the business of cement manufacturing. The company has a strong presence in the Northern and Western markets of India, where it sells its products under the brand name 'JK Lakshmi Cement'. The company also sells cement under the brands – JK Lakshmi Pro+, Platinum and JK Sixer Cement – in the premium segment.

**Strong presence in the Northern, Western and Eastern regions**: JKLC has integrated cement capacities at Sirohi and Udaipur (Rajasthan) and Durg (Chhattisgarh), and grinding units at Jhajjar (Haryana), Cuttack (Odisha), Kalol and Surat (Gujarat). JKLC has expanded its presence across the Northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), Western (Gujarat, Maharashtra, Madhya Pradesh) and Eastern regions (majority sales from Chhattisgarh and Odisha; rest from Bihar and West Bengal). Rajasthan and Gujarat form the major markets of the company, contributing more than 50% of the total sales volume. However, the company has also diversified its presence in Chhattisgarh and Odisha, which contribute about 20% of the total sales. The company has also started cross-selling of cement brands under JKLC and its subsidiary, UCWL, which has helped the company cater to the rising demand from the nearby areas of Rajasthan and Gujarat and reduce freight costs.

**Strong operating efficiencies underpinned by backward integration into major inputs:** The company has captive limestone mines and is one of the lowest cost producers in the cement industry, in terms of freight and power consumption parameters. JKLC meets about 75% of its power requirements through its captive power capacity (coal, waste heat recovery (WHR) and solar plants) of 117 MW, which results in lower power cost compared to utility power by at least ₹3.5-4 per unit.
During FY22 (refers to the period from April 01 to March 31), the capacity utilisation (including UCWL) has increased to 82%, as against 79% in FY21.
The plants are highly cost-efficient and among the lowest cost producers in the cement industry. Furthermore, the limestone mines have sufficient proven reserves to support the operation for more than 50 years. Backward integration and proximity to major raw material sources endow the company with operating benefits, thereby reducing its cost of production. During FY22, the surge in coal and pet coke prices has led to increased power and fuel cost as compared to the previous year. This apart, the increase in diesel cost has led to a rise in freight cost as compared to the previous year.
Additionally, the company has undertaken a 10-MW WHR plant in Sirohi, which got operational in Q4FY22, and the same will result in further savings in power cost from FY23 onwards.

**Comfortable financial risk profile:** The company's financial risk profile is marked by a comfortable overall gearing of 0.78x as on March 31, 2022 (PY: 0.88x) and gross debt/PBILDT of 1.98x (PY: 1.78x) at a consolidated basis. The interest coverage improved from 4.97x in FY21 to 6.69x in FY22.
The liquidity position of the company is strong, with cash and cash equivalents of ₹1,206 crore as on March 31, 2022, in the form of fixed deposit/mutual funds, on a consolidated basis (which also include NCD proceeds raised in March 2022) (PY: ₹832 crore on March 31, 2021), which is expected to remain in the company for meeting operational requirements as well as for providing adequate buffer to undertake the proposed capex of ₹1,650 crore (proposed to be funded via debt-equity mix of 2.0:1) in UCWL coming up in the next two and a half years.
On the financial front, the company has achieved a 15% growth in TOI during FY22 to ₹5,420 crore, as against a TOI of ₹4,727 crore. The sales realisation remained strong during FY22, in-line with the higher realisation achieved during FY22 as compared to the previous year on consolidated basis.
The high input costs have resulted in a de-growth in the PBILDT margin to 17.54% during FY22, as against 19.74% during FY21. The power & fuel costs and freight cost have increased in FY22 over corresponding year. The recent upward trajectory of the input costs exposes the operations to volatility in profitability, which is expected to continue in FY23 as well, and it remains to be seen to what extent the players are able to pass on the increased cost to the consumers.
On account of the lower interest cost, the profit-after-tax (PAT) has grown to ₹478 crore in FY22, as compared to a PAT of ₹420 crore achieved during FY21, thereby the PAT margin staying stable in the range of 8.8%.

**Improvement in the operational risk profile of UCWL:** UCWL started its operations with a capacity of 1.6 MTPA during FY17. This project was funded through debt of ₹525 crore, promoter contribution of ₹215 crore, and the balance through internal accruals. During FY18 and FY19, the company had registered losses owing to the initial stabilisation phase. However, the operations of UCWL have since stabilised, resulting in healthy cash accruals of about ₹60 crore, ₹90 crore and ₹100 crore during FY20, FY21 and FY22, respectively. The stabilisation of operations and improvement in profitability has resulted in positive accretion of UCWL's operations at a consolidated level.

**Key rating weaknesses**

**Project risk attached to proposed capacity augmentation under UCWL:** The company recently announced an expansion project for setting up an additional clinker capacity of 1.50 MTPA and a cement grinding capacity of 2.50 MTPA (including a WHR plant of 10 MW) at the existing location in Udaipur, under UCWL. The project is estimated to be set up at a cost of around ₹1,650 crore, which is envisaged to be funded at a debt-equity ratio (DER) of 2.0:1 and is expected to be commissioned by FY25. With a large part of the capex planned for the future, the company remains exposed to project execution risk, which will be substantially funded through debt. With significant experience of the promoters, financial closure being achieved, and their strong liquidity position, the risks are, however, mitigated to an extent.
Despite the debt addition on account of the capex, the overall gearing is expected to remain below unity, as the net debt addition (net of debt repayment) during FY22-FY26 is expected to be marginal and the tangible net worth (TNW) is expected to improve further with plough back of profits.

**Exposure to volatility in prices of coal and fuel cost as well as sales realisation prices:** JKLC generally procures coal from the open market from domestic and international coal producers (the US). This apart, a significant portion of its fuel requirement is met through pet coke, which is also sourced from domestic as well as international markets. Limestone along with power and fuel cost are the major cost components for the cement industry. Furthermore, the industry being high power- and freight-intensive, the operating dynamics are significantly driven by the prices and regulations of coal or pet coke and crude oil. The surge in crude oil prices in FY22 has raised freight costs significantly, resulting in diesel prices doubling up. The elevated input costs, coupled with the high freight and fuel expenses, have aggravated the cost pressure, which in turn, has impacted the profitability of cement companies. This apart, freight cost also forms one of the major cost components that are co-related to crude prices, which in turn, are directly linked with the overseas crude price variations. Hence, the company remains exposed to the risk arising out of the fluctuation in the prices of crude in future. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials or crude costs, without a corresponding movement in the price of cement, can affect the profitability of the company.

**Industry outlook:** Growth in India's cement sector has seen a strong bounce back in FY22. The year closed with a growth of 20%, reaching an all-time high, after witnessing a decline of 11% in FY21. The jump was on account of the government's infrastructure push via various schemes and allocations towards the creation of hard assets and a low base effect. Growth trend continues in production FY21 created a low base primarily because of the COVID-19 pandemic. This, coupled with pent-up demand, has led to the reversal in the muted trend in volumes. The 20% production growth in FY22 was driven by the strong recovery witnessed during H1FY22, which saw a y-o-y growth of 36%. Owing to strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to see an upswing in demand in FY23. CARE Ratings believes the industry is likely to move at high single-digit growth on account of government thrust for infrastructure and strong traction in capital expenditure. Various initiatives by the government along with several micro, small & medium enterprises (MSME) schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure could create some stress on the profitability of cement companies. Resultant price hikes by cement producers will become evident and might sustain in the near term. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

## Liquidity: Strong

The liquidity position of the company continues to be strong, with cash and cash equivalents of ₹1,206 crore as on March 31, 2022, in the form of fixed deposits/mutual funds, on a consolidated basis (which also include NCD proceeds raised in March 2022) (PY: ₹832 crore as on March 31, 2021). Furthermore, the company has unutilised fund-based working capital limits of ₹300 crore as on April 30, 2022 on standalone basis. The company reported gross cash accruals (GCA) of ₹676 crore in FY22, despite the inflationary cost pressures, as against repayment of ₹218 crore. The company has debt obligations (principal repayment obligations) of about ₹220 crore in FY23 as well.

## Analytical approach: Consolidated

The entities being consolidated are as follows:

| Entity | Relation | % Shareholding |
|---|---|---|
| Udaipur Cement Works Ltd | Subsidiary | 72.54% |
| Hansdeep Industries and Trading Company Ltd | Subsidiary | 100% |
| Ramakanta Properties Pvt ltd | In director Subsidiary | 100% |
| Dwarkesh Energy Ltd | Associates | 35% |

## Applicable criteria

Criteria on assigning outlook to credit ratings
CARE Ratings' policy on Default Recognition
CARE Ratings' policy on Liquidity Analysis for Non-Financial Sector Entities
Financial ratios – Non-financial sector
Rating methodology – Short-term instruments
Rating methodology – Manufacturing companies
Rating methodology – Cement industry
Rating methodology – Consolidation

## About the company

JKLC, part of the JK Group (East), was incorporated in 1938 and commenced its cement business in August 1982. It is one of the leading cement players in the Northern, Western and Eastern regions of India. JKLC is headed by Bharat Hari Singhania, Chairman and is in the business of manufacturing ordinary portland cement (OPC), blended cement (PPC), ready-mix concrete (RMC), and autoclaved aerated concrete (AAC) blocks. JKLC has a cement capacity of 11.80 MTPA on standalone basis. The cement plants of the company are located in Rajasthan, Gujarat, Haryana, Chhattisgarh, and Odisha. Also, JKLC's subsidiary, UCWL has a cement plant of 2.20 MTPA in Rajasthan. Thus, the total consolidated cement capacity of the company is 14.00 MTPA.

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

| Brief Financials (₹ crore) | FY20 (A) | FY21 (A) | FY22 (A) |
|---|---|---|---|
| TOI | 4370.45 | 4727.44 | 5419.89 |
| PBILDT | 793.50 | 933.17 | 950.71 |
| PAT | 252.94 | 419.78 | 477.58 |
| Overall gearing (times) | 1.24 | 0.88 | 0.78 |
| Interest coverage (times) | 3.60 | 4.97 | 6.69 |

A: Audited.

**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 | | - | - | - | 850.00 | CARE A1+ |
| Term Loan-Long Term | | - | - | March 2029 | 1009.56 | CARE AA; Stable |
| Fund-based - LT-Cash Credit | | - | - | - | 300.00 | CARE AA; Stable |
| Debentures-Non Convertible Debentures | INE786A07336, INE786A07344 | January 06, 2017 | 8.90% | Jan 06, 2022 | 0.00 | Withdrawn |
| Fixed Deposit | | - | - | - | 100.00 | CARE AA; Stable |
| Commercial Paper-Commercial Paper (Carved out) | | - | - | 7-364 days | 175.00 | CARE A1+ |

**Annexure-2: Rating History of 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 | Debentures-Non Convertible Debentures | - | - | - | | | | |
| 2 | Commercial Paper-Commercial Paper (Carved out) | ST | 175.00 | CARE A1+ | - | 1)CARE A1+ (07-Jul-21) | 1)CARE A1+ (04-Sep-20) | 1)CARE A1+ (06-Sep-19) |
| 3 | Non-fund-based - ST-BG/LC | ST | 850.00 | CARE A1+ | - | 1)CARE A1+ (07-Jul-21) | 1)CARE A1+ (04-Sep-20) | 1)CARE A1+ (06-Sep-19) |
| 4 | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (04-Sep-20) | 1)CARE AA-; Stable (06-Sep-19) |
| 5 | Term Loan-Long Term | LT | 1009.56 | CARE AA; Stable | - | 1)CARE AA; Stable (07-Jul-21) | 1)CARE AA-; Stable (04-Sep-20) | 1)CARE AA-; Stable (06-Sep-19) |
| 6 | Fund-based - LT-Cash Credit | LT | 300.00 | CARE AA; Stable | - | 1)CARE AA; Stable (07-Jul-21) | 1)CARE AA-; Stable (04-Sep-20) | 1)CARE AA-; Stable (06-Sep-19) |
| 7 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)CARE AA; Stable (07-Jul-21) | 1)CARE AA-; Stable (04-Sep-20) | 1)CARE AA-; Stable (06-Sep-19) |
| 8 | Fixed Deposit | LT | 100.00 | CARE AA; Stable | 1)CARE AA; Stable (22-Jun-22) | 1)CARE AA (FD); Stable (21-Sep-21)<br><br>2)CARE AA (FD); Stable (07-Jul-21) | 1)CARE AA- (FD); Stable (16-Mar-21)<br><br>2)CARE AA- (FD); Stable (04-Sep-20) | 1)CARE AA- (FD); Stable (06-Sep-19) |
| 9 | Commercial Paper | ST | - | - | - | - | - | 1)Withdrawn (06-Sep-19) |
| 10 | Commercial Paper | ST | - | - | - | - | - | 1)Withdrawn (06-Sep-19) |
| 11 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (07-Jul-21) | - | - |

* Long Term / Short Term

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

| Name of the Instrument | Detailed explanation |
|---|---|
| **A. Financial covenants** | |
| I. | Following financial covenants are to be tested on an annual basis based on standalone audited financials from March 31, 2022 onwards:<br>• Minimum interest coverage ratio of 2.40<br>• Minimum DSCR not to fall below 1.20<br>• Fixed assets coverage ratio not to fall below 1.30<br>Non- compliance with any of the above covenants will be treated as a breach. Penalty for breach of financial covenants (will be applicable as per undernoted terms:<br>a. Breach up to 10% -Nil<br>b. Deviation of 10% or more will result in penal interest at the rate of 1% p.a. from the date of breach till it is cured |
| **B. Non financial covenants** | **-** |

**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 | Debentures-Non Convertible Debentures | Simple |
| 3 | Fixed Deposit | 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 instrument:** CARE Ratings Ltd. 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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**About CARE Ratings Limited:**
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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