JSW Cement Limited

April 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A- (CWD) (Single A Minus) (Under Credit watch with Developing Implications); Continues to be on Credit watch with Developing Implications and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1 (CWD) (A One) (Under Credit watch with Developing Implications); Continues to be on Credit watch with Developing Implications and Withdrawn
Total Bank Facilities	**-**		

Details of instruments/facilities in Annexure-1

CARE had placed the ratings of JSW Cement Limited under 'Credit Watch with Developing Implications' vide press release dated December 09, 2020, on account of the proposed capital expenditure plans under its subsidiary, Shiva Cement Limited (SCL) to the tune of Rs.1500 crore for 1.36 million tonnes (MT) per annum clinker plant and 1 MT per annum grinding unit which are expected to be executed over a period of 3-5 years. Further, JSWCL has also planned expansion at its own various manufacturing facilities. Resultantly, the company is exposed to project execution risks and the capital structure of JSWCL is expected to remain leveraged due to drawdown of debt in phased manner over the next 3-4 years with overall gearing ratio of 2.31 times as on March 31, 2020.

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the outstanding rating of JSW Cement Limited at CARE A-; (Under Credit watch with Developing Implications), CARE A1 (Under Credit watch with Developing Implications) and has simultaneously withdrawn it, with immediate effect. The rating withdrawal is at the request of JSW Cement Limited and 'No Objection Certificate' received from all banks that have extended the facilities rated by CARE.

The ratings continue to derive comfort from the strength of experienced promoters (JSW group) along with established track record and financial support, experienced management, group synergies accruing to JSWCL for procurement of raw materials (slag) and power requirement, location advantage of the plants as well as consistent growth in operations, Successful commissioning of Jajpur Plant and Fujairah Plant, fiscal incentives for West Bengal, Orissa and Karnataka (Vijaynagar) plants.
The ratings are, however, constrained by exposure to volatility in prices of raw material and input costs impacting profitability, highly leveraged capital structure and deterioration in overall gearing levels, moderate debt servicing indicators, exposure to project execution risk and inherent cyclicality of the cement industry.

Rating Sensitivities

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

- Improvement in Overall Gearing below levels of 1x times on sustained basis.

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

- Any material decline in average realization and sales volume across product segments, substantial rise in input costs resulting in lower than envisaged profitability and PBILDT margins below 20%
- Any negative deviation in the execution of proposed expansion plan within the specified timelines with any major cost overrun along with raising of funds for the same.
- Any delay in stake sale to private equity investor

Detailed description of the key rating drivers

Prominent promoter group; experienced management

JSWCL is a part of JSW group, which in turn is a part of the Sajjan Jindal group. JSW group has significant presence in the diversified business segments like steel, energy, infrastructure, cement, ventures and sports. By virtue of being a part of the group, JSWCL draws strength from the JSW group's well-established track record in project execution and cost management expertise. Additionally, JSWCL has made use of JSW brand name as well as wide marketing and distribution network of JSW Steel Limited (JSWSL) for setting up of its own marketing network. JSWCL also enjoys reasonable financial flexibility by virtue of being a part of JSW group. Furthermore, the promoters have infused funds to the tune of Rs.584 crore over the past few years to support growth plans and improve capital structure, thus consistent financial support in the past from the promoters enabled the company to ramp up its operations and manage its cash-flows in an efficient manner. They are expected to provide need based financial assistance to JSWCL.

Integrated nature of operations providing assured supply of slag along with presence of limestone mines and captive power plants
Key raw materials required for manufacturing of cement are limestone, slag, gypsum, coal and pet-coke. JSWCL procures limestone from captive mines at Kurnool District (Andhra Pradesh), having proven reserves of around 134 million tonnes (MT), During FY19, the company has acquired new limestone mines in Kutch, Gujarat (125 MT) and Nagaur, Rajasthan (205 MT). The company also has 300 MT limestone reserve at Fujairah Plant, UAE. Further, JSWCL has a long-term agreement with JSWSL for procuring slag at bulk rates. For Salboni unit, the company has tie up with Tata Steel Limited for supply of slag. Gypsum is purchased either from domestic market or is imported. For Dolvi unit as well, adequate slag is available from JSWSL's Dolvi unit. The power requirements for JSWCL's Vijayanagar plant is met from power plant of JSW Energy Ltd (for which PPAs are in place while that of Nandyal and Salboni 18MW captive thermal power plants have been commissioned to reduce the power cost. JSWCL's coal requirement is being met through imports from South Africa, Australia and Indonesia, while pet-coke is being sourced by a mix of local sourcing and imports.

Location advantage of the plants, enabling JSWCL synergising its operations and enhancing its operational metricises: JSWCL's grinding and clinker units have location advantage in terms of proximity to raw material sources (limestone mines, Nandyal plant is located adjacent to the limestone mine and slag, Vijaynagar unit located in the vicinity of JSW Steel premises) and modes of transport (roads and rail). The target markets for JSWCL are Karnataka, Maharashtra, Andhra Pradesh, Telangana, Kerala, West Bengal, Tamil Nadu, Bihar, Jharkhand, Odisha and Goa which are adjacent localities from its manufacturing units which are in and around 400 kms radius from the units. The location advantage has important bearing on the profitability, considering cement is a freight intensive industry.

Constant increase in scale of operations by diversifying in new markets and enhancing its reach in key markets: Over the past few years, JSWCL's scale of operations increased on the back of higher sales volumes along with better realizations. The total operating income has grown at a CAGR of 30% over the past 3 years. Further, in an effort to increase geographical diversification, JSWCL has acquired approx. 53.50% stake in Shiva Cement through purchase of equity shares from promoters, ACC and other public shareholders under the open offer. The company has successfully completed the expansion of grinding capacity Vijaynagar (Karnataka), Salboni (West Bengal), Jajpur (Orissa) and Dolvi (Maharashtra) which has increased the total capacity from 6.4 MTPA (Million tonnes per Annum) in FY16 to 14 MTPA (Million tonnes per Annum) as on March 31, 2020. Also, in FY17, JSWCL incorporated 100% subsidiary "JSW Cement FZE" in Fujairah Free Zone located in the Emirate of Fujairah, UAE. JSW Cement FZE is setting up 1 MTPA clinker plant to cater the clinker requirement for JSW Cement Limited grinding unit.

Fiscal Incentives on back of capex in Salboni, West Bengal and Jajpur, Odissa: JSWCL is expected to receive the fiscal incentives from government for capacity expansion in Salboni, West Bengal and Jajpur, Odissa. Further, the company has also received interest free loan for 75% of FAV (Fixed Asset Value) for Vijaynagar plant, Karnataka for a period of 10 years.

Key Rating Weaknesses
Leveraged capital structure and moderate debt coverage indicators:
JSWCL's capital structure is leveraged as characterised by overall gearing of 2.31x (P.Y 2.21x) as on March 31, 2020 and long term debt to equity of 2.11x (P.Y 2.13x) as on March 31, 2020 owing to debt funded expansion activities in the past 2-3 years. During FY20, JSWCL's debt coverage indicators and its capital structure deteriorated primarily on account of elevation in debt levels owing to capex of Jajpur and Dolvi plants. Total debt is expected to remain at high levels in medium term owing to debt drawdown for Fujairah and Jajpur capex and recently announced capex under JSWCL AND SCL. PBILDT interest coverage although improved to 2.40x in FY20 from 2.01x in FY19 due to improvement in EBIDTA, however, continues to remain moderate mainly due to high interest cost due to debt drawdown for capex.

Exposure to volatility in raw material prices and input costs impacting profitability margins
Although the company has captive mines for limestone and supply agreements for slag, The Company is still exposed to volatility of input prices for key components of its operating costs like freight, fuel and power costs in addition to raw material costs which form a major portion of its cost structure. Furthermore, with the surplus capacity of the cement industry, the price of cement remains susceptible to demand supply dynamics. The PBILDT margins have remained in the range of 22-26% historically, however dipped in FY19 to ~17% mainly due to high freight costs, driven by increase in fuel prices and higher

volumes on the back of expansion projects undertaken by the company. During FY20, profitability has improved due to strong sales volumes and improvement in realizations. During H1FY21, the company generated revenue of Rs.1254 crore and PBILDT Margin of 24.02%. Going forward, any significant increase in input costs will be key rating monitorable.

Inherent nature of cyclicality of cement industry; stable outlook
Cement industry is highly cyclical in nature and depends largely on the economic growth of the country with high degree of correlation between the GDP growth and the growth in cement consumption. Given the inherent cyclical nature of the cement industry, the company remains exposed to risks associated with the same. However, higher outlay and focus on infrastructure, housing and rural development are likely to boost the cement demand in the long-term, which in turn will benefit the companies in the sector.

Exposure to project execution risk
The company has recently announced capital expenditure plans under SCL to the tune of Rs.1500 crore for 1.36 million MT clinker plant and 1 MT per annum grinding unit which are expected to be executed over a period of 3-5 years. Further, JSWCL has also planned expansion at its own various manufacturing facilities which will majorly be funded by PE investment which the company is planning to raise by March 2021. Out of the 1500 crore capex, majority of capex is towards clinker project which accounts to ~Rs.600-700 crore. The project is expected to be funded by a mix of debt and equity wherein Rs. 1150 crore (76.67%) of the capital expenditure will be funded via debt and balance through equity. The company is also in discussions to raise ~200 million (~Rs.1500 crore) through PE investment to fund the capex plans at JSW Cement. The total duration of the announced project under SCL is 3-5 years which will be executed in various phases with clinker unit and cement grinding unit expected to be commissioned by end of FY23 and railway infrastructure and ancillary facilities in the next 5 years. Thus, the company is exposed to project risk although the same is partially mitigated due to track record of successful execution of projects undertaken in the past.

Liquidity: Adequate
The Company's working capital cycle stood at ~21 days with collection period of 53 days and creditor days of 120 days in FY20. Major creditors comprise of acceptances for coal imports and clinker imports. Average Maximum working capital utilization for fund based limits stood at ~70% and for Non fund based limits stood at ~80% for 12 months ending February 2020.
Moreover, the company receives funding support from promoters and derives financial flexibility from being part of JSW group.

Analytical approach: CARE has taken consolidated approach on account of strong operational and strategic linkages with limited review of key consolidated financials as on March 31, 2020. The list of subsidiaries of which financials have been consolidated is provided in Annexure 5.

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology – Manufacturing Industry
Rating Methodology –Cement Industry
Rating Methodology –Liquidity Analysis of Non-financial sector entities

About the Company
JSW Cement Limited (JSWCL) is a part of JSW Group, managed by Mr. Parth Jindal, Mr. Parth is a Harvard Business School alumni. JSWCL is engaged in manufacturing various grades of cements (Portland Slag Cement (PSC), Ordinary Portland Cement (OPC), Ground Granulated Blast Furnace Slag cement (GGBFS) and Concreel HD cement (CHD) and Composite Cement (CPC)
The company was established with a view to utilize the slag generated from the integrated steel plant at Vijaynagar works of JSW Steel Ltd. for production of cement. Slag-based cement has certain advantages, such as increased strength, less corrosion, heat and water-resistance and longevity, which JSWCL aims to capitalise on. The company has total installed Capacity for manufacturing of Cement of 14 MTPA (Million Tonnes Per Annum) on consolidated basis with presence in West, South and East India spread across 10 states and distribution network of 3829 dealers as on March 25, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2767.33	2967.87
PBILDT	476.86	642.17
PAT	90.31	154.31
Overall gearing (times)	2.21	2.31
Interest coverage (times)	2.01	2.40

A: Audited

Note: The financials have been reclassified as per CARE standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A1 (CWD) (09-Dec-20)	1)CARE A1 (31-Mar-20)	1)CARE A1 (29-Mar-19) 2)CARE A1 (26-Dec-18) 3)CARE A1 (04-Apr-18)	-
2.	Term Loan-Long Term	LT	-	-	1)CARE A- (CWD)	1)CARE A-; Stable	1)CARE A-; Stable	-

					(09-Dec-20)	(31-Mar-20)	(29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	
3.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A- (CWD) (09-Dec-20)	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-
4.	Fund-based - LT-Term Loan	LT	-	-	1)CARE A- (CWD) (09-Dec-20)	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. DSCR (Debt Service Coverage Ratio)	Minimum 1.15x times
2. TTL/TNW (Total Term Liability/Tangible Networth)	Not to exceed 3.0x times up to FY20 and 2.5x times from FY21
3. FACR (Fixed Asset Coverage Ratio)	Not Below 1.15x times
B. Non-financial covenants	
1. Promoter Undertaking	To maintain minimum 51% shareholding and retain management control and to bring in any cost overrun in the project.
2. Borrower Undertaking	Any contribution from promoters/related parties in form of unsecured loans/NCD/OCD etc. to be subordinate to the credit facilities.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

Annexure-5: List of subsidiaries of JSWCL getting consolidated (list as on March 31, 2020)

Name of companies/ Entities	Country of Incorporation	% of holding in FY20
JSW Cement FZE	UAE	100 %
Shiva Cement Limited	India	54.44 %
Utkarsh Transport Private Limited	India	100 %

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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