

## J.K. Cement Works (Fujairah) FZC

August 08, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	74.38 (Reduced from 259.83)	CARE AA+ (CE); Stable [Double A Plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
<b>Total bank facilities</b>	<b>74.38</b> <b>(₹ Seventy-four crore and thirty-eight lakh only)</b>		

Details of instruments/facilities in Annexure-1.

<sup>1</sup>Facilities rated of US\$9.42 million, converted at 1US\$ = ₹78.96.

<sup>2</sup>Backed by an unconditional and irrevocable corporate guarantee from J.K. Cement Limited.

<b>Unsupported rating</b>	<b>CARE A (Single A) [Revised from CARE BBB-]</b>
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Note: Unsupported rating does not factor in the explicit credit enhancement.

### Detailed rationale and key rating drivers for the credit enhanced debt

The above rating is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee (CG) provided by J.K. Cement Limited (JKCL; rated 'CARE AA+; Stable/CARE A1+') for the bank facilities of J.K. Cement Works (Fujairah) FZC (JKCWF).

### Detailed rationale and key rating drivers of JKCL

The rating for the bank facilities and instruments of JKCL takes 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 the 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, the comfortable financial risk profile, and the strong liquidity position.

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

### Key rating drivers of JKCWF

The revision in the Unsupported rating assigned to the bank facilities of JKCWF is driven by the demonstrated track record of continuous funding support from the parent entity, JKCL, in the past, towards debt servicing which has led to significant reduction in debt levels. The rating also continues to take into cognisance the business and operational linkages with the parent entity, ie, JKCL, and the common promoters and management team. CARE Ratings Limited (CARE Ratings) believes that JKCWF will remain strategically and operationally integral to JKCL. The ratings are, however, constrained by the continuing cash losses, the relatively moderate solvency profile, the volatile input costs, and the cyclical nature associated with the cement industry.

### Rating sensitivities

Rating sensitivities for JKCL are available on our website [www.careratings.com](http://www.careratings.com).

### Detailed description of the key rating drivers – JKCL

A detailed description of the key rating drivers for JKCL is available on our website [www.careratings.com](http://www.careratings.com).

### Liquidity

The liquidity position of the company derives comfort from the liquidity of the parent (guarantee provider) and that 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 the 12 months ending June 30, 2022. As articulated by the management, the company will maintain free cash balances in the range of about ₹700-800 crore and the balance surplus cash is 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 gross cash accruals (GCA) of ₹1,113 crore in FY22.

<sup>1</sup>Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Analytical approach

**For CE rating:** Guarantor assessment – JKCL has provided an unconditional and irrevocable CG for the term loan facility availed by JKCWF. CARE Ratings has analysed the operating and financial performance of the corporate guarantor, viz, JKCL (consolidated) for arriving at the rating.

**Unsupported rating:** Standalone, factoring in the strong linkages with the parent company, JKCL.

## Applicable criteria

[Policy on Default Recognition](#)

[Consolidation](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating credit-enhanced debt](#)

[Rating outlook and credit watch](#)

[Short-term instruments](#)

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## About the guarantor – JKCL

JKCL (CIN No: L17229UP1994PLC017199), part of the JK group (North), was incorporated in November 1994. JKCL has an installed capacity of 14.67 million tonne per annum (MTPA). It is also one of the leading white cement manufacturers, with an installed capacity of 1.48 MTPA and also has presence in the wall putty segment, with an installed capacity of 1.33 MTPA. The company's grey cement plants are located at Nimbahera, Mangrol, and Gotan in Rajasthan (aggregating to 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, 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 the 0.7 MTPA plant at Katni, Madhya Pradesh (including an 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 an interchangeable capacity of 0.6 MTPA of white cement or 1 MTPA of grey cement.

Brief Financials (₹ crore) – JKCL (consolidated)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
TOI	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.

## About the company – JKCWF

Incorporated in March 2008, JKCWF is a step-down subsidiary of JKCL. JKCL holds a 90% stake in the company through a wholly-owned subsidiary, J. K. Cement (Fujairah) FZC (JKCF), with the balance held by Fujairah Investment Establishment Limited, a Government of Fujairah establishment. The company has implemented a greenfield dual process cement plant, having an installed capacity of 0.6 mtpa of white cement or 1 mtpa of grey cement in Fujairah, UAE, which commenced commercial operations from September 29, 2014.

Brief Financials (₹ crore) – JKCWF	December 31, 2019 (A)	December 31, 2020 (A)	December 31, 2021 (A)
TOI	299.28	277.47	331.98
PBILDT	34.20	25.76	4.17
PAT	-74.05	-67.89	-79.22
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	0.69	0.76	0.17

A: Audited; NM: Not meaningful.

\*AED: ₹20.27 as on December 31, 2021; ₹19.89 as on December 31, 2020; ₹19.41 as on December 31, 2019.

Latest quarter: NA.

**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
Fund-based - LT-Term loan		-	-	April 2025	74.38	CARE AA+ (CE); Stable
Unsupported rating-Unsupported rating (long term)		-	-	-	0.00	CARE A

#### 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-Term loan	LT	74.38	CARE AA+ (CE); Stable	-	1)CARE AA+ (CE); Stable (August 03, 2021)	1)CARE AA (CE); Positive (December 15, 2020)	1)CARE AA (CE); Stable (December 16, 2019)
2.	Unsupported rating-Unsupported rating (long term)	LT	0.00	CARE A	-	1)CARE BBB- (August 03, 2021)	1)CARE BBB- (December 15, 2020)	1)CARE BBB-; Stable (December 16, 2019)

\*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	
I. Current ratio	The borrower will ensure the current ratio at a minimum of 1.2x
II. Total debt gearing ratio	The borrower will ensure total debt gearing ratio at a maximum of 3.5x
<b>B. Non-financial covenants</b>	
I. Sell, transfer or dispose	The borrower will not, without consent of majority lenders, sell, transfer, or otherwise dispose of any of its asset or receivables of its asset financed by the lenders
II. Merger	The borrower will not enter into any amalgamation, demerger, merger, or corporate restructuring without the prior written consent of majority lenders

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

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Unsupported rating-Unsupported rating (long term)	Simple

#### Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please [click here](#).

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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