JK Lakshmi Cement Limited

March 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-Term Medium-Term Instruments (Fixed Deposits)	75.00 (Enhanced from 50.00)	CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium-Term Instruments	**75.00 (Rs. Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings of the 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 its strong operating efficiencies in terms of freight and power consumption parameters. The ratings also derive comfort from the improvement in operational and financial performance of the company, on a consolidated basis, in FY20 and 9MFY21, improved profitability of JKLC's subsidiary, Udaipur Cement Works Ltd (UCWL), in FY20 and 9MFY21, and the comfortable financial profile and the strong liquidity position of the company.

The rating is, however, constrained by the cyclicality associated with the cement industry, exposure to volatility in input costs, dependence of cement demand on construction activity and infrastructure spend in the economy and the uncertainty regarding the ongoing Covid-19 pandemic clearing out.

Rating sensitivities:

Positive sensitivities:

- Sustained growth in top-line by around 15%-20% p.a. without affecting margins
- Sustenance of PBILDT margins at over 20%
- Improvement in leverage levels, going forward, with overall gearing settling below unity on a consolidated basis.

Negative sensitivities:

- Decline in PBILDT margins below 13%-14%.
- Substantial decline in sales volume resulting in lower capacity utilization of plants and decline in the total operating income on a sustained basis.
- Deterioration in capital structure or increase in overall gearing levels beyond existing levels, on a consolidated basis, on account of the recently announced capacity expansion plan in UCWL.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and strong brand image:

JKLC's promoters have extensive experience in the business of cement manufacturing of about four decades. The company has a strong presence, especially in northern and western markets of India where it sells its produce under the brand name *JK Lakshmi Cement,* besides its presence in the eastern Indian market. The company also sells cement under the brand names *JK Lakshmi Pro+* and *Platinum* in the premium segment. The company also launched a new brand *JK Sixer Cement* in September 2018 in Rajasthan, Gujarat and Madhya Pradesh.

Diversified market presence:

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). The company has also started cross-selling of cement brands under JKLC and its subsidiary, Udaipur Cement Works Limited (UCWL) to cater to the rising demand from 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 majority of its power requirements through its captive power capacity (coal and waste heat recovery based) of 105 MW. The mines have sufficient proven reserves to support the operation for about next 35-40 years. Backward integration and proximity to major raw material sources endow the company with operating benefits, thereby reducing its cost of production. Further, the company has been able to rationalise its freight costs by optimising its sources among its group's units. Nonetheless, the cement operations remain exposed to volatility in prices of coal and other inputs.
The capacity utilization levels were at 76% in FY20 as against 86% in FY19, on consolidated basis owing to the unforeseen incidence of COVID-19 pandemic in March 2020. The utilisation was affected during the pandemic, improving in later months, resulting in an average utilisation of 72% for 9MFY21.

Improvement in financial performance in FY20 and 9MFY21, despite the impact of Covid-19 pandemic on the operations of the company:
During FY20, the consolidated operating income of JKLC increased marginally by around 1% y-o-y to Rs.4,394 crore as compared to Rs. 4,340 crore in FY19, despite decline in sales volume by about 2%. The decline in sales volume was attributed primarily to the outbreak of Covid-19 and the consequent countrywide lockdown which affected the operations of the company during the last 10 days of March 2020 [11.09 million tonnes per annum (MTPA) in FY20 as compared to 11.31 MTPA in FY19]. However, the decline in sales volume was offset by an improved average sales realization price during the FY20. The company's PBILDT has increased significantly by around 77% to Rs.817 crore in FY20 (Rs.462 crore in FY19) and PAT has increased to Rs.253 crore in FY20 (Rs.41 crore in FY19). The improvement in performance in FY20 was mainly on account of higher sales realizations and higher PBILDT per tonne, due to cost saving measures adopted by the company, including commissioning of a 20 MW thermal power plant (TPP) at Durg in June 2019, cross-selling of cement brands under JKLC and UCWL, and reduction in lead distance which have led to reduced fuel and freight cost. Furthermore, there has been an improvement in financial performance of UCWL with increase in its total operating income by around 18.50% in FY20 on y-o-y basis (Rs.687 crore in FY20 as compared to Rs.580 crore in FY19). UCWL has reported a net profit of Rs.16 crore in FY20 against a net loss of Rs.41 crore in FY19. On consolidated basis, the overall gearing ratio of the company improved from 1.53x as on March 31, 2019 to 1.24x as on March 31, 2020 and the interest coverage also improved from 1.89x in FY19 to 3.71x in FY20.
During 9MFY21, JKLC's TOI, on a consolidated basis, has grown by about 2.92% to Rs.3,348 crore as compared to Rs.3,253 crore during 9MFY20. PBILDT increased by about 13.55% to Rs.671 crore in 9MFY21 (Rs.591 crore in 9MFY20) and PAT increased by 69.78% to Rs.262 crore in 9MFY21 (Rs.154 crore in 9MFY20). PBILDT margins have improved to 20.03% during 9MFY21 as compared to 18.16% during 9MFY20 on account of higher sales volume with improved operational efficiencies. The company has been able to achieve improved operational and financial performance despite the aftermath effects of Covid-19 pandemic on account of satisfactory sales volume supported by higher average sales realization prices and increased operational efficiencies

Key Rating Weaknesses

Proposed capital expenditure for setting up additional clinker & split grinding capacities 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 along with railway siding at existing location at its existing plant in Udaipur under UCWL. The project is estimated to be set up at a cost of around Rs. 1,500 crore, which is envisaged to be funded at a debt-equity ratio (DER) of 2:1 and is expected to be commissioned by March 2024. With a large part of capex planned for the future, the company remains exposed to project execution risk, which would be substantially funded through debt.
JKLC's solvency ratios have improved during the FY20 on the backdrop of improved operational and financial performance of the company; however, it continues to remain at moderate levels. The Total Debt/GCA ratio on consolidated basis stood at 3.58x as on March 31, 2020 (9.19x as on March 31, 2019). The overall gearing ratio of the company though improved from 1.53x as on March 31, 2019 to 1.24x as on March 31, 2020, it remains at moderately high levels. While the company continues to maintain healthy liquidity, which is expected to support debt coverage metrics, any deterioration in capital structure or increase in overall gearing levels would remain a key rating sensitivity.

Exposure to volatility in prices of coal and fuel cost as well as sales realization prices:
JKLC generally procures coal from the open market from domestic and international coal producers. Besides, a significant portion of its fuel requirement is met through pet coke, which is also sourced from domestic as well as international markets. Absence of long-term fuel supply agreements and coal linkages exposes the company

to any adverse volatility in the prices of the commodities. Besides, its realizations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry

Liquidity Analysis: Strong
JKLC's liquidity position continues to be strong with a free cash balance (including liquid investments) of Rs.965 crore as on January 31, 2021, on a consolidated basis. The average utilization of fund based working capital limits (including commercial paper) were comfortable at 53.33% for 12 months ending December 31, 2020. The company has principal repayments of around Rs.398 crore in FY22 on a consolidated basis vis-à-vis gross cash accruals of Rs.463 crore in 9MFY21.
JKLC had availed of moratorium for its term loan instalments with effect from March 1, 2020, for a period of six months towards deferment of their debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. However, the company has since repaid the deferred amount of principal instalments in January 2021, owing to its comfortable financial position.

Analytical Approach: Consolidated

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Liquidity analysis for Non-Financial Sector Entity
Rating Methodology – Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-Financial Sector
Rating Methodology - Cement Industry
CARE's Policy on curing period
Rating Methodology-Factoring Linkages in Ratings

About the Company
JK Lakshmi Cement Limited (JKLC), a part of JK Group (East), was incorporated in 1938 and commenced the cement business in August 1982. It is one of the leading cement players in the northern, western and eastern regions. JKLC is headed by Mr. Bharat Hari Singhania (Chairman & Managing Director) 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 11.70 million tonne per annum (MTPA) on standalone basis. The cement plants of the company are situated in Rajasthan, Gujarat, Haryana, Chhattisgarh and Odisha. Also, JKLC's subsidiary, Udaipur Cement Works Limited (UCWL) has a cement plant of 1.60 MTPA in Rajasthan, which became operational in March 2017. Thus, the total consolidated cement capacity of the company is 13.30 MTPA.

Brief Financials (Consolidated) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4339.79	4393.73
PBILDT	462.46	816.78
PAT	40.62	252.94
Overall gearing (times)	1.53	1.24
Interest coverage (times)	1.89	3.70

A: Audited
Status of non-cooperation with previous CRA: Not Applicable

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

Any other information: Not Applicable

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

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
Fixed Deposit	-	-	-	75.00	CARE AA- (FD); Stable

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.	Debentures-Non-Convertible Debentures	-	-	-	-	-	-	-
2.	Commercial Paper-Commercial Paper (Carved out)	ST	175.00	CARE A1+	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (06-Sep-19)	1)CARE A1+ (08-Oct-18) 2)CARE A1+ (02-May-18)	1)CARE A1+ (26-Dec-17)
3.	Non-fund-based - ST-BG/LC	ST	700.00	CARE A1+	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (06-Sep-19)	1)CARE A1+ (15-Mar-19) 2)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)
4.	Debentures-Non-Convertible Debentures	LT	-	-	1)Withdrawn (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
5.	Term Loan-Long Term	LT	1209.41	CARE AA-; Stable	1)CARE AA-; Stable (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
6.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
7.	Debentures-Non-Convertible Debentures	LT	225.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
8.	Fixed Deposit	LT	75.00	CARE AA- (FD); Stable	1)CARE AA- (FD); Stable (04-Sep-20)	1)CARE AA- (FD); Stable (06-Sep-19)	1)CARE AA- (FD); Stable (08-Oct-18)	1)CARE AA (FD); Stable (26-Dec-17) 2)CARE AA (FD); Stable (04-Aug-17) 3)CARE AA (FD); Stable (23-May-17)
9.	Commercial Paper	ST	-	-	-	1)Withdrawn (06-Sep-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)
10.	Commercial Paper	ST	-	-	-	1)Withdrawn (06-Sep-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)

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

Long term loan	Detailed explanation
Financial Covenants	**NA**
Non-financial Covenants	**NA**

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple

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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