Udaipur Cement Works Limited

July 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,010.65 (Reduced from 1,066.28)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	20.00	CARE AA; Stable / CARE A1+	Reaffirmed
Non-convertible debentures	350.00	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings for the bank facilities of Udaipur Cement Works Limited (UCWL) continue to reflect the strategic importance of UCWL to its parent – JK Lakshmi Cement Ltd (JKLC; rated 'CARE AA; Stable/CARE A1+'), and the strong management, operational and financial linkages it has with JKLC, besides the demonstrated support it has received from its parent entity in the past, which is expected to continue going forward. As a subsidiary of JKLC, UCWL has been able to increase the market presence of JKLC in its key market of northern and western India. Going forward, the group is undertaking its future expansion plans through UCWL, which will lead to an increased contribution of UCWL in the group. Currently, UCWL contributes about 16% of the cement capacity of the group on a consolidated level, which will increase to 20-25% post the brownfield capacity expansion, and this will significantly contribute to the consolidated revenue and profitability of JKLC, going forward. Hence, UCWL's presence will be critical for JKLC in maintaining its market share in its key markets. JKLC is expected to continue to support UCWL through equity infusions and corporate guarantees (CGs) for its upcoming capex plans.

The ratings further consider UCWL's sustained turnaround in the operating and financial performance in the past few years. Currently, UCWL has a grey cement grinding capacity of 2.2 million tonne per annum (MTPA) and post the proposed expansion (which is expected to be commissioned in October 2024), the overall capacity of UCWL (standalone) will be 4.7 MTPA. The sustenance in the healthy operational performance, along with the proposed rights issue in UCWL of approximately is expected to lead to an enhanced net worth base for it by FY24-end.

The ratings are, however, constrained by the project risk associated with the proposed capacity augmentation plan, susceptibility to risks relating to varying input costs and realisations, and the cyclicality in the cement industry, which leads to variability in the profitability.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the credit profile of JKLC (parent).
- Increase in capacities leading to improved market share in the regions of operation, and significant improvement in UCWL's operating and financial performance on a sustained basis

Negative factors

- Deterioration in the credit profile of the parent's (JKLC) profile.
- Material change in the shareholding of JKLC or the financial/operational support philosophy of the parent towards UCWL
- Significant deterioration in UCWL's operating performance
- Significant time and cost overrun in the planned expansion in UCWL

Analytical approach: Standalone

The ratings have been assessed at a standalone level. UCWL remains a strategically important subsidiary of JKLC, with strong management, operational, and financial integrations with the parent.

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

Outlook: Stable

Stable outlook for UCWL reflects its likelihood to maintain its current operating performance over a medium term on the back of healthy topline growth pursuant to the robust demand experienced by the cement industry. Furthermore, with reduction in the prices of coal and pet coke, the operating profitability is also expected to improve sequentially. Continued support from JKLC and strategic importance to it will aid the capacity expansion undertaken by UCWL.

Detailed description of the key rating drivers:

Key strengths

Strategic importance and strong operational linkages with parent:

In FY23 (refers to the period from April 01 to March 31), UCWL's revenue and profit before interest, lease rentals, depreciation and taxation (PBILDT) contributed 16% each (Revenue - FY22: 17%, FY21: 15%; FY20: 16%; FY19: 13% and PBILDT - FY21: 15%, FY20: 15%, FY19: 9%), to JKLC's consolidated revenue and PBILDT. As a subsidiary of JKLC, UCWL has been able to increase the market presence of JKLC in its key markets of northern and western India. Overall, UCWL has about 16% of the cement capacity of JKLC on a consolidated level and post the expansion that the parent has planned in UCWL, this will increase to 28%, and will significantly contribute to the consolidated revenue and profitability of JKLC, going forward (meaningfully from FY25). Operationally as well, UCWL is well-integrated with JKLC, with raw materials procurement, production, marketing, and finance functions being centrally managed. The sourcing of major raw materials, such as pet coke, coal and fly-ash is done at the group level, thus benefiting UCWL from JKLC's scale of operations. JKLC holds a 72.54% of UCWL and two directors on the company's board are from the parent's board, including the Chairman position, which is held by JKLC's Vice Chairman and Managing Director. JKLC will also support UCWL through equity infusions for the ongoing brownfield capacity expansion project. JKLC has also extended a CG for the entire outstanding debt of UCWL (except loans under the Emergency Credit Line Guarantee Scheme [ECLGS]) and intends to extend the same for future borrowing as well. CARE Ratings believes UCWL will remain strategically and operationally integral to JKLC.

Topline growth driven by robust demand and improved sales realisation:

The company has achieved a 18% growth in TOI during FY23 to ₹1036 crore as against a TOI of ₹879 crore during FY22 on the back of 8.36% growth in the grey cement sales volume. The sales realisation also improved during FY23, however, was not adequate to cover the significant rise in the fuel cost witnessed during FY23. The improvement in sales realisation was driven by improving the share of premium products in its sales mix and also improving the geographical mix of the markets it operates into. During FY23 (refers to the period from April 01 to March 31), The capacity utilisation also improved from 85% during FY22 to 89% in FY23. The company along with its parent JKLC, is a strong player in the Northern and Western market and is expected to benefit from the strong demand emanating from these regions leading to improved capacity utilisation.

Comfortable operational and financial risk profiles:

UCWL started its operations with a capacity of 1.6 MTPA during FY17 and the project was funded through debt, promoter contribution and 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 ₹90 crore, ₹100 crore and ₹87 crore during FY21, FY22 and FY23, respectively. The accruals have dipped in FY23 owing to reduced profitability pursuant to high fuel prices. The present capacity of cement grinding is 2.2 MTPA. On the operational front the company has shown further improvement with average power consumption per ton of cement and clinker reducing significantly from 79 kWh in FY21 to 71 kWh in FY23 and going forward as the company operationalises newer and efficient plant the power consumption is expected to reduce further.

The net overall gearing has increased to 4.60x as on March 31, 2023 (PY: 2.94x as on March 31, 2022). These indicators have moderated in FY23 on account ongoing capex in UCWL, increased working capital borrowing and lower profitability on the back of rise in input cost.

Interest coverage stood at comfortable at 2.81x in FY23 though moderated compared to 2.96x in FY22 owing to reduced profitability. Similarly, the Total debt/GCA also increased significantly to 14.44x as on compared 10.19x during FY22 as the GCA witnessed moderation on account of subdued profitability.

However, going forward, as the group commissions the increased capacity in October 2023 (clinker commissioning) and in October 2024 (grey capacity grinding unit commissioning) the scale of operations will increase and have a favourable impact on its credit profile. The cement capacity currently stands at 2.2 MT and post the proposed expansion of 2.5 MTPA, the overall capacity of UCWL (standalone) will be 4.7 MTPA. The capital structure has moderated, owing to the drawdown of debt to fund the ongoing brownfield capex; but with the proposed rights issue of approximately ₹448 crore in FY24, the net worth base for UCWL (standalone) shall increase, which is expected to be over ₹750 crore by FY24-end and thereby improve its capital structure. This is expected to lead to a net overall gearing level of around 1.70x by FY24-end. Earlier the rights issue was expected in FY23 and accordingly an enhanced networth base was expected by end of FY23. However, due to weak market condition the same was kept on hold but with market conditions improving the company has now come out with the rights issue.

Post the commissioning of the enhanced facilities, the contribution of UCWL to the consolidated revenue and profitability will also increase to approximately to 20%-25%.

Key weaknesses

Project risk attached to proposed capacity augmentation:
The company has undertaken brownfield 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 scheduled date for completion of the project is October 2024.
The project is estimated to be set up at a cost of around ₹1,650 crore, which will be funded through debt of Rs. 1,100 crore, rights issue of ₹448 crore at UCWL and balance through internal accruals. Till date the company has incurred ₹875 crore (Source of funds - Debt of ₹544 crore, equity/internal accruals of Rs. 262 crore and capital creditors of ₹68 crore) Going forward the company shall incur ₹500 crore in FY24 and ₹300 crore in FY25.

Exposure to volatility in prices of coal and fuel cost as well as sales realisation prices:
UCWL 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. Owing to the geo-political uncertainty, the coal and pet coke prices rose significantly in FY23. The elevated input costs have aggravated the cost pressure, which in turn, has impacted the profitability of cement companies. This apart, power and fuel cost also forms one of the major cost components which is directly related to international coal and pet coke price variations. Hence, the company remains exposed to the risk arising out of the fluctuation in the fuel prices. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials, crude or fuel costs, without a corresponding movement in the price of cement, can affect the profitability of the company. For FY23, the power & fuel costs and freight cost per ton have increased by 50% to ₹1,795/t compared to ₹1,198/t during FY22. Thus, high input costs resulted in around 403 bps decline in PBILDT margin to 12.92% during FY23 as against 16.92% during FY22. PAT stood at ₹36 crore in FY23 as compared to PAT of ₹49 crore achieved during FY22, thereby PAT margin declining to 3.46% as against 5.54% in the previous year.

Industry outlook:
According to CARE Ratings, the current upcycle in infrastructure and real estate is expected to significantly boost cement demand. CARE Ratings predicts growth in cement volume by 8-9% in FY23, reaching 380-385 million tonnes (MT), and by FY25-end, reaching 440-450 MT. The macros of the cement industry remain stable in the long term, driven by demand from the housing sector, upcoming infrastructure projects as well as generous rural demand. The capex spree by the government on infrastructure and housing spend in the wake of the 2024 general election paints an encouraging picture of cement demand. The private capex is also expected to pick up gradually lending further support on the demand front. The cement players have also responded enthusiastically by announcing huge capacity addition over FY23- FY25. The robust capacity addition plans by players for FY23-FY25 in anticipation of demand growth and market share gains are expected to keep the industry's capacity utilization (grinding) under check, and they are unlikely to improve beyond 67-69% at the Pan-India level despite a better demand outlook.
CARE Ratings does not expect any significant price hike-led realization growth coming through for the players that they were scouting for in the last fiscal. Few players will register growth in net realization which will be supported by a change in their product mix as was the case in FY23 as well.
Operating profitability improvement in FY24 will majorly be on account of cooling off in the input costs as improvement in the cement prices still looks beyond the horizon due to intensifying competition to gain market share and run for the capacity additions amongst players. However, any rebound in fuel prices remains a key monitorable.

Liquidity: Adequate

Liquidity of UCWL is adequate and derives strength from the overall strong liquidity of JKLC. Cash accrual stood at ₹87 crore in fiscal 2023, as against ₹52.75 crore of long-term debt repayment obligation. Cash and liquidity stood at ₹4 crore as on March 31, 2023 (PY: ₹321 crore) with minimal utilization of the fund-based working capital facility (sanctioned limit of ₹20 crore). The reduction in the liquidity is on account funding of capex requirements of the company from the NCDs raised in March 2022 which were lying as cash with company at year end and internal accruals of the company.
The proposed capex of around ₹1,650 crore over fiscals 2022 to 2025 in UCWL, is expected to be financed through debt of ₹ 1,100 crore, equity infusion from JKLC and internal accrual. Bank lines are expected to comfortably meet the incremental working capital requirement. The repayment obligation for FY24 and FY25 stand at ₹63 crore and ₹72 crore in UCWL.
The company is also expected to raise ₹448 crore from the rights issue, the proceeds of which shall be utilized to fund the capacity expansion project. Furthermore, working capital lines are freely available, which provides additional liquidity cushion.

JKLC (Parent) Liquidity – Strong

The liquidity position of the JKLC continues to be strong with cash and cash equivalents of ₹848 crore as on March 31, 2023 (Rs.1206 crore as on March 31, 2022), in the form of FD/ Mutual funds on consolidated basis. The reduction in the liquidity is on account funding of capex requirements of the company from the NCDs raised in March 2022 which were lying as cash with company at year end and internal accruals of the company. Furthermore, the company has unutilized fund-based working capital limit of ₹300 crore as on April 2023. The company reported GCA of ₹614 cr in FY23, despite the inflationary cost pressures, as against repayment of ₹224 cr. The company has debt obligation (principal repayment obligation) of about ₹282 crore in FY24 as well. The liquidity and accruals of the company is sufficient to meet these obligations along with its capex plans. Further, being part of the JK group (eastern zone), coupled with extensive promoter experience and strong liquidity lends adequate financial flexibility to the company. JKLC is expected to maintain healthy liquidity over the medium term as well. This helps the company to tide over any the cyclical nature of the cement industry. Unutilised fund-based bank limit lends additional cushion to liquidity in case required.

Environment, social, and governance (ESG) risks

JKLC has deployed various strategies to reduce the emissions from the production process. The company has been to improve the share of green technology and alternate fuels. Owing to this the net carbon emission per ton of cement has reduced from 584 kg to 555 kg. The company has registered various Clean Development Mechanism (CDM) and Voluntary Carbon Standard (VCS) projects to address the global issue of climate change.

Social:
The company has undertaken various CSR projects related to health, water and sanitation, education, rural development, etc. The key CSR initiatives of the company include Naya Savera (integrated family welfare programme), health camps, construction of toilets and garbage management system in the adjoining locality, scholarships, rain-water harvesting, promotion of sports in rural areas.

Governance:
As a part good governance practice and policy, 50% of its board comprises of independent directors, there split in chairperson and CEO positions, a dedicated investor grievance redressal system has been put in place and extensive disclosures measure are adopted.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cement
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

UCWL (CIN: L26943RJ1993PLC007267) is a subsidiary of JKLC. During FY14, UCWL became a subsidiary (associate company in the previous year) of JKLC, with an increase in JKLC's equity shareholding. UCWL has set up a 1.60-MTPA cement capacity in Udaipur, which commenced commercial operations in March 2017 (a grinding unit of 0.65 MTPA was commissioned earlier). UCWL completed de-bottlenecking and expanded its clinker capacity by 0.3 MT to 1.5 MT, and cement by 0.6 MT to 2.2 MT.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	726	879	1,036
PBILDT	140	149	134
PAT	55	49	36
Overall gearing (times)	3.33	4.29	4.62
Interest coverage (times)	2.60	2.96	2.81

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore; JKLC - Consolidated)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (Audited - Abridged)
Total operating income	4777	5468	6452
PBILDT	988	999	839
PAT	421	478	369
Overall gearing (times)	0.88	0.78	0.68
Interest coverage (times)	5.15	7.03	6.29

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE225C07026	27/09/2022	7.5	26/09/2025	350.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-June-2030	868.05	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-June-2030	75.88	CARE AA; Stable
Fund-based - LT-Working capital Term Loan		-	-	30-06-2026	36.72	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	20.00	CARE AA; Stable / CARE A1+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	30.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22) 3)CARE AA (CE); Stable (07-Jul-21)	1)CARE AA- (CE); Stable (04-Sep-20) 2)CARE AA- (CE); Stable (29-May-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	20.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Dec-22) 2)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA; Stable / CARE A1+ (14-Mar-22) 2)CARE AA; Stable / CARE A1+ (24-Jan-22) 3)CARE AA (CE); Stable / CARE A1+ (CE) (07-Jul-21)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (04-Sep-20) 2)CARE AA- (CE); Stable / CARE A1+ (CE) (29-May-20)
3	Fund-based - LT-Term Loan	LT	868.05	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22) 3)CARE AA (CE); Stable (07-Jul-21)	1)CARE AA- (CE); Stable (04-Sep-20) 2)CARE AA- (CE); Stable (29-May-20)
4	Fund-based - LT-Term Loan	LT	75.88	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22)	1)CARE AA- (CE); Stable (04-Sep-20)

							3)CARE AA (CE); Stable (07-Jul-21)	2)CARE AA- (CE); Stable (29-May-20)
5	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	-	1)Withdrawn (24-Jan-22) 2)CARE BBB+ / CARE A3+ (07-Jul-21)	1)CARE BBB+ / CARE A3+ (04-Sep-20) 2)CARE BBB- / CARE A3 (29-May-20)
6	Fund-based - LT-Working capital Term Loan	LT	36.72	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22) 3)CARE BBB+; Stable (07-Jul-21)	-
7	LT/ST Instrument-NCD/CP	LT/ST*	-	-	-	1)Withdrawn (06-Dec-22) 2)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA; Stable / CARE A1+ (14-Mar-22)	-
8	Debentures-Non Convertible Debentures	LT	350.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (29-Sep-22)	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	DSCR: 1.65 ICR: 2.54 FACR: 1.36 Debt/EBITDA: 3.74

B. Non financial covenants	Effect any change in the capital structure, where shareholding of the existing promoter gets diluted below the current levels, without prior permission of the lenders.

Particulars	Instruments
Type of Instrument	NCD
Size of the issue	350.00
Coupon	The Coupon shall be floating rate linked to an External Benchmark of 3M MIBOR + spread, payable annually. The initial coupon on the Deemed Date of Allotment is 7.45% p.a.
Coupon Step up	Spread step up by 25 bps for each notch downgrade in Ratings
Coupon Payment dates	Annually from the date of allotment & 16th March 2025
Tenor, Repayment terms & Maturity	2.5 year from the Deemed Date of Allotment (in any case final redemption date to be no later than 16th March 2025) Bullet Repayment
Other Terms (Call and put)	1st March 2024
Purpose	Refinancing of Existing External Unlisted NCDs
Mode of Issue	Private
Amount of listed NCDs o/s as on September 20, 2022	Not placed
YTM (at last traded price if applicable)	-
Financial and non-financial covenants	Customary covenants for financing of this nature including but not limited to: • JKLC consolidated Total debt/EBDITA not to exceed 3.0x at any time, • JKLC consolidated total debt/tangible net worth ratio shall not exceed 1.0x at any time, • JKLC consolidated debt service coverage ratio shall amount to at least 1.25x at any time, • Issuer's minimum FACR of 1.25x; • No change in ownership and management control of the Parent & Issuer Mandatory Prepayment – The Issuer shall prepay the debentures upon occurrence of the following events (subject to the agreed carve outs): • Illegality; • Change of control, nature of business, corporate actions like merger, demerger, amalgamation, or any other corporate actions of similar nature without prior written consent of the Debenture Trustee; • Downgrade in external long term credit rating of Issuer/Parent beyond 2 notches; Material asset or share disposal; • equity issuance at Issuer level, except in case of rights issue/equity infusion for the proposed capex plan; • Others, to be finalised during transaction documentation

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT-Working capital Term Loan	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of 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 for any clarifications.

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About us:
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