JK Lakshmi Cement Limited

July 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	919.26 (Reduced from 1,054.50)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	1,100.00	CARE A1+	Reaffirmed
Fixed deposit	100.00	CARE AA; Stable	Reaffirmed
Commercial paper (Carved out)*	175.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of JK Lakshmi Cement Limited (JKLC) take into account the comfortable financial risk profile over the past few years leading to below-unity gearing level and comfortable net debt/ profit before interest, lease rentals, depreciation and taxation (PBILDT), which stood at 0.37x and 1.23x levels, respectively, as on March 31, 2023. The rating further factors in revenue growth by the company's volume growth across regional markets, 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 FY23 in-line with the input cost pressures prevalent in the industry.

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 12-18 months comfortably, without significantly increasing the consolidated gearing. The ratings also consider the improvement in the operational risk profile of JKLC's subsidiary over past few years, 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in capacities leading to improved market share in the regions of operation
- Sustained growth in top-line and EBITDA per tonne over 1,100 – 1,200 on sustained basis.
- Improvement in the capital structure leading to decline in Total Debt/PBILDT to below 1.5x on sustained basis.

Negative factors

- Deterioration in capital structure or increase in Net Debt / PBILDT levels beyond 2x on a sustained basis.
- Substantial decline in Operating profitability such that EBITDA per tonne is below ₹700 on sustained basis leading to weakening of debt coverage indicators.
- Time and cost overrun in the ongoing project impacting its credit profile.

Analytical approach: Consolidated. List of entities being consolidated is provided as **Annexure 6**.

Outlook: Stable

Stable outlook for JKLC 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. The strong liquidity position of JKLC will aid the capacity expansion without significantly affecting the gearing levels.

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

Detailed description of the key rating drivers:

Key strengths

Strong presence in the Northern region:
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). The company also recently entered the Central region (Uttar Pradesh) through a capacity tie up of 1.5 MTPA through leasing arrangement with Kanodia Cement.
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. 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 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.
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 30 years considering the increase requirement post the capacity expansion at UCWL. Backward integration and proximity to major raw material sources endow the company with operating benefits, thereby reducing its cost of production which is expected to continue going forward as well. During FY23, the surge in coal and pet coke prices has led to increased power and fuel cost as compared to the previous year.

Topline growth driven by robust demand and improved sales realisation:
For FY23 the company has achieved a 18% growth in TOI on the back of a 6.5% sales volume growth, as against a TOI of ₹5,468 crore for FY22. The sales realisation 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 on a consolidated basis remined stable at 82%. The company 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 financial risk profile:
The company's financial risk profile is marked by a comfortable net overall gearing of 0.37x as on March 31, 2023 (PY: 0.29x) and net debt/PBILDT of 1.23x (PY: 0.74x) at a consolidated basis. These indicators have moderated in FY23 on account ongoing capex in UCWL and lower profitability on the back of rise in input cost. Interest coverage in FY23 stood strong at 6.29x though moderated when compared to 7.03x in FY22 owing to reduced profitability. Further with cooling in the input cost prices, it is expected that the operating profitability shall increase sequentially from here on and with the existing debt expected to be repaid over the same period, the financial risk profile is expected to remain healthy over medium term. However, any significant debt funded organic or inorganic capex plans which lead to deterioration in its overall financial risk profile shall remain a credit negative.

Improvement in the operational risk profile of UCWL:
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. 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 capacity utilisation also improved from 85% during FY22 to 89% in FY23.
The stabilisation of operations and improvement in profitability has resulted in positive accretion of UCWL's operations at a consolidated level. Going forward as the additional capacity is operationalised, UCWL's contribution to consolidated topline and profitability will improve further.

Key weaknesses

Project risk attached to proposed capacity augmentation under UCWL and green energy projects:

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 ₹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 ₹262 crore and capital creditors of Rs.68 crore) Going forward the company shall incur ₹500 crore in FY24 and ₹300 crore in FY25.
The company is undertaking various green energy projects namely set up a 40MW solar power plant through JV, setting up a 7MW solar plant for its Sirohi plant, capex to increase its thermal substitution rate and WHRS capacity. The estimated capex for these projects is Rs. 200-250 crore which will be met through issuing green bonds of ₹200 crore.
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 FY24-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. 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. The high input costs have resulted in a de-growth in the PBILDT margin to 13% during FY23 for JKLC at Consolidated level, as against 18.27% during FY22. The power & fuel costs and freight cost per ton have increased by 39% in FY23 (Rs. 1603/t) over corresponding year (₹1,152/t). Accordingly, the company's PBILDT per tonne on a consolidated basis moderated to Rs.710 per tonne in FY23 from ₹865 per tonne in FY22 and Rs.939 per tonne in FY21. The company is expected to improve its PBILDT per tonne largely on account of significant softening of coal and pet coke prices and conscious efforts by the company to improve its geo mix and push sales in higher realisation region, higher share of green and alternate energy sources and reduced lead time.

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.

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 estimate 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: Strong

The liquidity position of the company continues to be strong with cash and cash equivalents of ₹848 crore as on March 31, 2023 (₹1,206 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

The cement manufacturing industry is energy and fuel intensive and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to health and safety effects of its operations on the society and its employees and changing preference of the end user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process. The below initiatives undertaken by the company:

Environment:
JKLC has deployed various strategies to reduce the emissions from the production process. The company has been working towards greener and cleaner technology. 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 chairman and managing director positions, a dedicated investor grievance redressal system has been put in place and extensive disclosures measure are adopted.

Applicable criteria

Policy on default recognition
Consolidation
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

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.

Brief Financials (₹ crore)	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

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

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
Commercial Paper-Commercial Paper (Carved out)		NA	NA	NA	175.00	CARE A1+
Fixed Deposit		-	-	-	100.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	300.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	1100.00	CARE A1+
Term Loan-Long Term		-	-	31-03-2034	619.26	CARE AA; Stable

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	Debentures-Non Convertible Debentures	-	-	-				
2	Commercial Paper-Commercial Paper (Carved out)	ST	175.00	CARE A1+	-	1)CARE A1+ (06-Dec-22) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (07-Jul-21)	1)CARE A1+ (04-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	1100.00	CARE A1+	-	1)CARE A1+ (06-Dec-22) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (07-Jul-21)	1)CARE A1+ (04-Sep-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (04-Sep-20)
5	Term Loan-Long Term	LT	619.26	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (07-Jul-21)	1)CARE AA-; Stable (04-Sep-20)
6	Fund-based - LT-Cash Credit	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (07-Jul-21)	1)CARE AA-; Stable (04-Sep-20)
7	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Jul-22)	1)CARE AA; Stable (07-Jul-21)	1)CARE AA-; Stable (04-Sep-20)
8	Fixed Deposit	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22) 3)CARE AA; Stable (22-Jun-22)	1)CARE AA (FD); Stable (21-Sep-21) 2)CARE AA (FD); Stable (07-Jul-21)	1)CARE AA- (FD); Stable (16-Mar-21) 2)CARE AA- (FD); Stable (04-Sep-20)
9	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fixed Deposit	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term Loan-Long Term	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.

Annexure-6: Entities being consolidated (as on March 31, 2023)

Companies consider under consideration	Subsidiary/Associate	% of share held
Udaipur Cement Works Ltd	Subsidiary	72.54
Hansdeep Industries and Trading Company Ltd	Subsidiary	100
Ramakanta Properties Pvt ltd	Step Down Subsidiary	100
Dwarkesh Energy Ltd	Associate	35

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates rais e capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by th e methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in