Wonder Cement Limited

December 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2,883.31 (Reduced from 3,242.58)	CARE AA; Stable	Revised from CARE AA-; Stable
Long-term / Short-term bank facilities	1,600.00 (Enhanced from 1,550.00)	CARE AA; Stable / CARE A1+	Revised from CARE AA-; Stable / CARE A1+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised its rating of long-term bank facilities of Wonder Cement Limited (WCL) to 'CARE AA/Stable' from 'CARE AA-; Stable' while reaffirming the short-term rating at 'CARE A1+'.

The revision in the long-term ratings of the bank facilities of WCL factors in the consistent growth in its scale of operations for the past five years, mainly driven by consistent improving sales volume with ramp-up of installed capacities, healthy revenue growth in FY23 (refers to period from April 01 to March 31) and H1FY24 (refers to period from April 01 to September 30). The topline has increased by 32% both in FY23 and H1FY24 y-o-y basis primarily driven by increase in the sales volume which has been higher than the average industry levels which has been growing at 9% and 12%, respectively. In FY23, clinker installed capacity was increased to 10.54 MTPA from 7.75 MTPA in FY22 with operationalisation of Line IV in March 2023. In the current fiscal, the company has also increased cement grinding capacity from 13.50 MTPA as on March 31, 2023 to 18.00 MTPA as on October 31, 2023 with commercialisation of two grinding units in Uttar Pradesh and Gujarat each. WCL has maintained strong market position, primarily aided by continuous increase in its production capacity over the past few years. With increase in installed capacities, CARE Ratings expects the likely continuation of increase in sales volume over the next two years. The revision in the ratings also factors in the expected improvement in operating profitability over the medium-term period, driven by rationalisation of coal and pet coke prices in the current fiscal and resultant improvement expected in the leverage position of the company with no further debt or capex over medium term expected to be taken up by WCL.

It also derives strength from its strong brand presence, established marketing and distribution network in the northern, central and western pockets of India with gradual expansion in other Indian states, and its cost competitiveness due to access to captive limestone mines and captive sources of power. The ratings continue to factor in the resourcefulness of the promoters and professionally driven management of the company.

The long-term rating is, however, tempered due to its geographical concentration with installed capacities of clinker at one location thus limiting its sales largely in the northern and western markets and few areas of central India. The ratings are also constrained by moderately leveraged capital structure owing to debt-funded capital expenditure in recent past. However, this is expected to improve over the next two years with no significant capex being planned to be taken up in the medium term, the susceptibility of the profitability to volatile pet coke/coal and diesel prices and the company's presence in a competitive and cyclical cement industry where prices are determined by market forces and demand-supply scenario.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in top-line by around 25% while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) per tonne at ₹1,100 per tonne levels.
- Improvement in net debt/PBILDT below 1.5x on a sustained basis.

Negative factors

- Decline in PBILDT per tonne below ₹800 on a sustained basis leading to weakening of debt coverage indicators.
- Substantial decline in sales volume resulting in lower capacity utilisation of plants and decline in the total operating income (TOI).
- Any significant debt-financed capex leading to deterioration in capital structure with increase in net debt to PBILDT above 2.3x beyond FY24-end on a sustained basis or total gross debt exceeding ₹3,000 crore beyond FY24-end.

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

Analytical approach:

Consolidated, owing to the strong operational and strategic linkages with its subsidiaries. The entities are in the same line of business, sell under common brands and have common management and control. Furthermore, WCL has also issued corporate guarantee for the bank facilities of Wonder Wallcare Private Limited (WWPL).

The entities considered in consolidation are mentioned below:

As on March 31, 2023,

Name	% of ownership
Wonder Wallcare Private Limited	75%

*Ranakpur Cement Limited (wholly-owned subsidiary) was dissolved w.e.f. March 7, 2023.

Outlook: Stable

Stable outlook for WCL reflects its likelihood to maintain its current operating performance over a medium term on the back of increase in installed capacity and healthy topline growth pursuant to the robust demand experienced by the cement industry. Furthermore, with a cooling in the prices of coal and pet coke in the current year, the operating profitability is expected to improve sequentially and WCL's credit profile is expected to remain healthy.

Detailed description of the key rating drivers:

Key strengths

Consistent growth in the scale of operations driven by increase in installed capacity and increasing sales volume

There has been consistent increase in the scale of operations of WCL in the past five years with the revenue increasing from ₹2,800 crore in FY19 to ₹6,021 crore in FY23. The company has also commenced clinker production at the newly commissioned Line-IV with a capacity of 2.8 MTPA at its Nimbahera plant from March 01, 2023. It also increased cement grinding capacity from 13.50 MTPA as on March 31, 2023 to 18.00 MTPA as on October 31, 2023 with commercialisation of two grinding units with installed capacity of 2 MTPA each. With a clinker conversion factor of 1.35 currently, WCL is now having a clinker backed cement capacity of 14.85 MT as on November 30, 2023. Given the stable demand of cement during FY23, the capacity utilisation of clinker remained high at 100% during FY23 and overall capacity utilisation of the cement also stood higher at 81% during FY23 as against the capacity utilisation of 66% during FY22. Stable demand of cement led to growth of 23% in the cement volumes to 10.89 MMT during FY23 as against cement sales of 8.87 MMT during FY22. For FY23, total income increased 32% y-o-y basis on account of improved blended realisation partially and largely due to volumes. The sales volume over the past years have increased from 6.79 MT in FY19 to 10.94 MT (including clinker) in FY23. The growth trend also continued in H1FY24 as well and the volumes have grown 34% compared to H1FY23 with cement sales being at 6.29MT. CARE Ratings expects full year volume growth at 16% in FY24, the growth in volume henceforth shall moderate as expected for the industry post general elections but shall continue to remain healthy at 6-7% year on year for the next two years.

Strong brand presence in demand accretive regions with established marketing and distribution network

WCL is among the top 15 grey cement manufacturers in India with a presence across north, central and west India and sales spread across regions. WCL has a strong presence in north India, where it is in the top six cement manufacturers.
WCL sells its cement under the brand name of 'Wonder', which it markets in Rajasthan, Madhya Pradesh, Gujarat, Haryana, Uttar Pradesh, Maharashtra, Delhi NCR, Uttarakhand, Punjab, Himachal Pradesh, Jammu and Kashmir, and Dadar-Haveli through its team of marketing professionals, business partners and a wide distribution network of dealers. Rajasthan continues to remain a strong market for WCL, however, with WCL gradually increasing its footprint across new states, the sales contribution from Rajasthan declined from 40% in FY19 to 28% during FY23. The company has also gradually increased its presence into new markets over the years, with Madhya Pradesh contributing 16%, Gujarat contributing 15%, and Haryana contributing 10% each of the sales in FY23.

Healthy operating efficiency due to integrated business operations supported by captive limestone mines and power plant

WCL derives high operational efficiency from availability of captive limestone mines and captive sources of power. The estimated mining reserve in already acquired land is more than 542 MMT against the annual requirement of 11.30 MMT for the existing cement plant. Additionally, new mines have been acquired in Jaisalmer (mineable reserve of 147.39 MMT) and is in the process of acquiring Dhar (mineable reserve of 10 MMT) as well via e-auction routes. These mines upon operationalisation, shall provide access to high-grade limestone reserves to the company. This is expected to reduce the raw material cost incurred by the company for sourcing high-grade limestone. Furthermore, it also derives operating efficiency with access to low-cost captive sources of power, including CPP, waste heat recovery plant (WHRP) along with solar and wind energy sources (total 129.50 megawatt [MW]). Furthermore, with increase in the operational efficiencies and commencement of Line IV in March 2023, the power consumption per MT of cement production has reduced to 66.92 KWH/MT of cement in FY23 from 68.32 KWH/MT of cement in FY22. The company has also largely met its power requirement from the captive power plant, however, with increase in coal and pet coke costs in FY23, captive power generation reduced to 60% of the total power consumption in FY23 as compared with 90% of the power consumption being met through captive power generation in FY22. With rationalisation of coal and pet coke prices in FY24, power consumption from captive power generation is expected to improve.

Moderately high leverage though improvement expected in FY24
Stable demand of cement led to growth of 23% in the cement volumes to 10.89 MMT during FY23 as against cement sales of 8.87 MMT during FY22. However, during the year due to increase in the prices of raw material (mainly increase in coal prices) has led to deterioration of PBILDT margin. Higher prices of pet coke and increased power and fuel charges led to moderation in the operating margins from 19.27% in FY22 to 14.00% in FY23 and EBITDA per tonne of cement moderated from ₹969 per tonne (including subsidy) in FY22 to ₹770 per tonne in FY23. The prices of coal and pet coke remained inflated which has been reflected in the power and fuel cost per ton which has been rising each quarter till Q2FY23, post which prices rationalised. The reduced power and fuel prices in H1FY24 have led to improvement of PBILDT/t which stood at ₹1,003 per tonne (including subsidy).
The gearing levels of the company stood moderate at 1.26x as on March 31, 2023. (PY: 1.06x as on March 31, 2022). The total debt increased to ₹2,834.78 crore as on March 31, 2023 to ₹2,105.41 as on March 31, 2022, on account of capex in relation to setting up Line IV clinker unit, grinding unit in Uttar Pradesh and Gujarat and putty plant in Wonder Wallcare Private Limited. Amount outstanding as on September 30, 2023 is ₹2,731.92 crore. Subsequent to increase in the term debt due to debt-funded capex for Line-IV and two grinding units, the total debt to PBILDT weakened to 3.36x in FY23 (PY: 2.41x during FY22). The moderation in the debt to PBILDT and net debt to PBILDT is on account of subdued profitability due to unabated cost pressures as well. Furthermore, going forward, CARE Ratings expects the debt coverage indicators of the company to improve owing to improved cash accruals particularly aided by moderation in fuel cost and on account of operating leverage due to volume growth which is expected. The net debt to PBILDT is expected to improve to less than 2.4x by FY24-end and further to less than 2x by FY25-end. The management has guided that the debt levels shall not increase beyond ₹3,000 crore and reducing the leverage will be the key focus for the medium term which shall remain a key monitorable.
Furthermore, WCL is eligible for state subsidies under VAT refund scheme which continues on SGST basis while netting off input tax credit post implementation of GST. The company has been accruing the subsidy amount and has been receiving the same though with some delay. Outstanding balance as on September 30, 2023, is ₹328.38 crore, majorly from Government of Maharashtra. Hence, CARE Ratings understands that the timely receipt of balance and additional subsidy from the respective state governments remains key monitorable.

Resourceful promoters and professional management
WCL is promoted by the Rajasthan-based R K group. The group's flagship company, R.K. Marble Pvt Ltd (RKMPL), is one of the largest players in the marble industry in India. The promoters possess over three decades of experience in the marble industry. Furthermore, the operations of WCL are run by professional management having vast experience in the cement industry.

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 9-10% in FY24, reaching 410-415 million tonnes (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 utilisation (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 realisation growth coming through for the players that they were scouting for in the last fiscal. Few players will register growth in net realisation which will be supported by a change in their product mix as was the case in FY23 as well. The operating profitability improvement in FY24 will majorly be on account of cooling off in the input costs as significant 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.

Key weaknesses

Exposure to volatility in prices of pet coke
Limestone is the primary raw material for manufacturing cement. Furthermore, the industry being power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet coke and crude oil. The pet coke prices have continued to increase during FY23 to ₹18,436/MT from ₹16,996/MT in FY22. The prices of coal have also increased by around 64% to ₹17,658/MT in FY23 from ₹10,735/MT in FY22. Correspondingly, power and fuel cost increased to ₹1,870/MT in FY23 from ₹1,399/MT during FY22. Furthermore, with stabilisation of pet coke and coal prices in H1FY24, the power and fuel cost has reduced to ₹1,583/t in H1FY24. CARE Ratings notes that given the volatility in the prices of pet coke and the significant contribution to the power and fuel expense, the prices will need to be monitored going forward and any adverse movement in the prices would have a direct bearing on operating profitability of the company.

Presence in the cyclical cement industry as well as geographical concentration of clinker capacity in comparison to its peers
The company is exposed to the inherent cyclicality present in the cement industry with high correlation between economic growth and consumption of cement. This can in turn impact capacity utilisation and sales realisation of WCL as its prospects would be intricately linked to market forces and demand-supply scenario. Furthermore, WCL is exposed to the inherent risk related to operating its major capacity at single location unlike other large players in the industry. WCL has geographically diversified its

grinding capacity at five locations. Nevertheless, WCL's clinker capacity is concentrated at single location as compared to geographically diverse capacity of other large players. Geographically diverse clinker capacity of other large players strengthens their competitive advantage to serve the diverse market while optimising lead time.

Liquidity: Strong
WCL generally stocks inventories of around 45-50 days for pet coke. While most of the cement sales are on cash basis, the suppliers are paid within 30 days. As a result, the operating cycle of the company remained in the range of 40-60 days during FY19-22 with 48 days during FY23 (PY: 44 days). The utilisation of the fund-based working capital limits continued to remain negligible (2%) for trailing 14 months ended September 2023. However, the non-fund-based working capital utilisation has increased with outstanding LC of ₹200.62 crore as on March 31, 2023 and ₹151.95 crore as on September 30, 2023. Accepted LC as on September 30, 2023 is ₹8 crore. The increased utilisation of non-fund-based utilisation is largely due to the increasing use of LC-based creditors for the import of pet coke and also for import of machinery for capex. The gross cash accruals (GCA) of WCL stood at ₹651.93 crore for FY23 which were largely impacted due to cost battle that the sector was grappling with. The cash accruals are expected to increase and remain in the range of ₹800-900 crore for the next two years against which the debt repayments stood at ₹254 crore each in FY24 and FY25 and ₹421 crore in FY26 with no major capex requirement by WCL over a medium term. WCL had free cash and cash equivalents to the tune of ₹244 crores as on September 30, 2023. In H1FY24, the company has repaid the debt of ₹129.90 crore and remaining ₹125 crore will be paid in H2FY24. Considering the liquid balance available with the company and expected improvement in the accruals, the liquidity position of the company remains strong. The company also does not have any major capex plans in the next upcoming period apart from maintenance capex of ₹100-150 crore which will be funded through internal accruals.

Assumptions/Covenants
Not applicable

Environment, social, and governance (ESG) risks
Not applicable

Applicable criteria
Policy on default recognition
Consolidation
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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction materials	Cement & cement products	Cement & cement products

Promoted by the R. K. group of Rajasthan, WCL is engaged in the manufacturing of Ordinary Portland Cement (OPC) of 53 and 43 grade and Portland Pozzolona Cement (PPC). WCL has an integrated production facility having installed cement grinding capacity of 18.00 million metric tonne per annum (MTPA) for product of cement (7 MTPA at Rajasthan, 2.00 MTPA at Maharashtra, 2.00 MTPA at Madhya Pradesh, 3 MTPA at Haryana, 2 MTPA at Uttar Pradesh and 2 MTPA in Gujarat) and with effect from March 01, 2023, its clinker capacity has expanded from 7.75 MMTPA to 10.56 MTPA on commencement of Line-IV clinker plant at its existing plant location at Nimbahera, Rajasthan. The clinker-backed cement capacity that WCL has is close to 14.85MT as on November 30, 2023.
Furthermore, WCL has 129.50-megawatt captive power plant (70 MW through thermal power plant, 42 MW through WHRP, 15 MW through wind power plant and 2.50 MW through solar power plant) as on November 30, 2023.

Consolidated key financials are:

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	4,535.33	6,020.68	3,440.50
PBILDT	874.36	843.01	632.20
PAT	259.34	249.70	197.01
Overall gearing (times)	1.10	1.31	NA
Interest coverage (times)	5.75	5.84	6.25

A: Audited UA: Unaudited; NA: Not available 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
Fund-based - LT-Term loan		-	-	31-07-2030	766.47	CARE AA; Stable
Fund-based - LT/ ST-Bank overdraft		-	-	-	500.00	CARE AA; Stable / CARE A1+
Fund-based - LT/ ST-Cash credit		-	-	-	300.00	CARE AA; Stable / CARE A1+
Non-fund-based-LT/ST		-	-	-	800.00	CARE AA; Stable / CARE A1+
Term loan-Long term		-	-	01-01-2034	1510.00	CARE AA; Stable
Term loan-Long term		-	-	01-01-2029	606.84	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	Term loan-Long term	LT	1510.00	CARE AA; Stable	1)CARE AA-; Stable (04-Apr-23)	1)CARE AA-; Stable (08-Nov-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (08-Dec-20)
2	Non-fund-based-LT/ST	LT/ST*	800.00	CARE AA; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (04-Apr-23)	1)CARE AA-; Stable / CARE A1+ (08-Nov-22)	1)CARE AA-; Positive / CARE A1+ (05-Oct-21)	1)CARE AA-; Stable / CARE A1+ (08-Dec-20)
3	Fund-based - LT/ ST-Cash credit	LT/ST*	300.00	CARE AA; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (04-Apr-23)	1)CARE AA-; Stable / CARE A1+ (08-Nov-22)	1)CARE AA-; Positive / CARE A1+ (05-Oct-21)	1)CARE AA-; Stable / CARE A1+ (08-Dec-20)
4	Term loan-Long term	LT	606.84	CARE AA; Stable	1)CARE AA-; Stable (04-Apr-23)	1)CARE AA-; Stable (08-Nov-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (08-Dec-20)
5	Fund-based - LT-Term loan	LT	766.47	CARE AA; Stable	1)CARE AA-; Stable (04-Apr-23)	1)CARE AA-; Stable (08-Nov-22)	1)CARE AA-; Positive (05-Oct-21)	1)CARE AA-; Stable (08-Dec-20)
6	Fund-based - LT/ ST-Bank overdraft	LT/ST*	500.00	CARE AA; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (04-Apr-23)	-	-	-

*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	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-Bank overdraft	Simple
3	Fund-based - LT/ ST-Cash credit	Simple

4	Non-fund-based-LT/ST	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.

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About us:

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