Udaipur Cement Works Limited

April 05, 2024

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Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings for 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. UCWL increased its contribution to the total cement capacity of the group from earlier 16% to 26% post the inauguration of its Udaipur Plant. This expansion 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. CARE Ratings expect the continuance of JKLC's to support UCWL through equity infusions and corporate guarantees (CGs) given the strategic significance of UCWL to the group.

Ratings further consider UCWL's sustained turnaround in the operating and financial performance in the past few years which is poised for further growth as UCWL doubled its grey cement grinding capacity from 2.2 million tonne per annum (MTPA) to 4.7 million tonne per annum (MTPA) post the addition of its newly installed cement grinding and packaging section at the Udaipur plant in Rajasthan in March 2024.

However, ratings remain constrained by UCWL's susceptibility to risks relating to varying input costs and realisations, and the cyclicality in the cement industry, which leads to variability in the profitability.

CARE Ratings has withdrawn the rating assigned to the non-convertible debentures (NCD with ISIN: INE225C07026) of the company with immediate effect, as the company has fully repaid the amounts under the said NCDs and there is no amount outstanding under the NCDs.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving credit profile of JKLC (parent).
- Increasing capacities leading to improved market share in the regions of operation, and significantly improving UCWL's operating and financial performance on a sustained basis.

Negative factors

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

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

Analytical approach: Standalone
Ratings have been assessed at a standalone level factoring linkages with parent JK Lakshmi Cement Ltd (JKLC; rated 'CARE AA; Stable/CARE A1+'). UCWL remains a strategically important subsidiary of JKLC, with strong management, operational, and financial integrations with the parent.

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 as well as ramp up in its capacities. Continued support from JKLC and strategic importance to it further aids the financial risk profile of UCWL.

Detailed description of the key rating drivers:

Key strengths

Strategic importance and strong operational linkages with parent: In 9MFY24 (refers to the period from April 01 to December 31), UCWL's revenue and profit before interest, lease rentals, depreciation and taxation (PBILDT) contributed 16% and 17% respectively (revenue – FY23: 16%, FY22: 17%, FY21: 15%; FY20: 16%; FY19: 13% and PBILDT – FY23: 16%, FY22: 15%, 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 26% of the cement capacity of JKLC on a consolidated level post the expansion in UCWL which is expected to significantly boost the contribution of UCWL 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 75% of UCWL and one director on the company's board from the parent's board, held by JKLC's Vice Chairman and Managing Director. JKLC has also extended a corporate guarantee (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 reported an 18% growth in TOI in FY23 to ₹1,036 crore as against a TOI of ₹879 crore in FY22. In 9MFY24, UCWL achieved a topline of ₹816.32 crore which is an improvement of almost 11% on a Y-o-Y basis from ₹737.42 crore in 9MFY23. with a PBILDT margin of 15.47% driven by healthy demand from the infrastructure segment.
The sales realisation also improved in FY23, however, was not adequate to cover the significant rise in the fuel cost witnessed during FY23. The improving 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. In FY23 (refers to the period from April 01 to March 31), the capacity utilisation also improved from 85% in 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 in FY17 and the project was funded through debt, promoter contribution and internal accruals. In 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, ₹87 crore and ₹76 crore during FY21, FY22, FY23, and 9MFY24 respectively. The accruals have dipped in FY23 owing to reduced profitability pursuant to high fuel prices. The present capacity of cement grinding is 4.7 MTPA.
On the operational front the company has showed improvement in the 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 has operationalised the newer and more 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 of the capex underwent in UCWL which increased the working capital borrowing and lower profitability on the back of rise in input cost. The Total debt/gross cash accrual (GCA) increased significantly to 14.44x as on March 31, 2023, compared 10.19x in the previous year as the GCA witnessed moderation on account of subdued profitability in FY23 period. However, PBILDT margin rebounded in 9MFY24 from 12.92% in FY23 to 15.47% in 9MFY24 on account of cooling in previously high power and fuel costs as well as the commissioning of the increased capacity in October 2023 (clinker commissioning). Along with the commissioning in March 2024 (grey capacity grinding unit commissioning) the scale of operations is expected to increase further and will have a favourable impact on its credit profile.
The capital structure moderated in FY23, owing to the drawdown of debt to fund the brownfield capex; but with the rights issue of ₹448 crore concluded in July 2023, the net worth base for UCWL (standalone) increased from ₹345.81 crore in FY23 to ₹ 849.63 crore in 9MFY24 (9MFY23: Rs. 330.54 crore) thereby improving the capital structure. This led to an improving overall gearing level from 4.62x in FY23 to around 1.51x in 9MFY24. Going forward, with the commissioned enhanced facilities, the contribution of UCWL to the consolidated revenue and profitability of the group is also expected to increase to approximately to 20%-25%.

Key weaknesses

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. 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 in FY23. 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. 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. In 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% in FY23 as against 16.92% in FY22. The profit after tax (PAT) stood at ₹36 crore in FY23 as compared to PAT of ₹49 crore achieved in FY22, thereby PAT margin declining to 3.46% as against 5.54% in the previous year. However, the same showed improvement in FY24 due to cooling off in the input costs whereby in 9MFY24 the PBILDT margin improved to 15.47% and PAT stood at Rs. 41.62 crore.

Liquidity: Adequate

Liquidity of UCWL is adequate and derives strength from the overall strong liquidity of JKLC. Cash accrual stood at ₹76 crore in 9MFY24 (FY23: ₹87 crore) against the repayment obligation of full FY24 of around ₹63 crore in UCWL. Cash and liquidity stood at around ₹257 crore as on September 30, 2023, as against ₹4 crore as on March 31, 2023 (PY: ₹321 crore) with minimal utilization of the fund-based working capital facility (sanctioned limit of ₹30 crore). The reduction in the liquidity in FY23 was on account of 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 FY25 stand at ₹72 crore in UCWL. The company also completed the raising of ₹448 crore from the rights issue, the proceeds of which is to be utilized to fund the expansion projects. 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 ₹799 crore as on December 31, 2023 (March 31, 2023: ₹848 crore), in the form of fixed deposit (FD)/ mutual funds on consolidated basis. The company reported GCA of ₹518.16 crore in 9MFY24 against debt obligation (principal repayment obligation) of about ₹282 crore in FY24. 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.

Assumptions/Covenants

NA

Environment, social, and governance (ESG) risks

Environment: JKLC has deployed various strategies to reduce the emissions from the production process. The company has been improving 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 corporate social responsibility (CSR) projects related to health, water and sanitation, education and rural development, among others. 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
Financial Ratios – Non financial Sector
Rating Methodology – Notching by Factoring Linkages in Ratings
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. In 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. UCWL commissioned its 2nd Clinker Line of 1.50 MTPA in October 2023, whereby its clinker capacity has doubled to 3MTPA. Furthermore, the company inaugurated its Cement Mill IV at the Udaipur Plant in Dabok, Udaipur, Rajasthan on March 28th, 2024, which increased its production capacity to 4.7MTPA from 2.2 MTPA.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	878.99	1,035.51	816.32
PBILDT	148.70	133.75	126.34
PAT	48.66	35.86	41.62
Overall gearing (times)	4.21	4.48	-
Interest coverage (times)	2.96	2.81	2.91

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 to 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: Please refer to Annexure-4

Lender details: Please refer to 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	16/03/2025	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-September-2036	868.05	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-September-2036	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 (04-Jul-23)	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+	1)CARE AA; Stable / CARE A1+ (06-Dec-22)	1)CARE AA; Stable / CARE A1+ (14-Mar-22)	1)CARE AA- (CE); Stable / CARE A1+ (CE)

					(04-Jul-23)	2)CARE AA; Stable / CARE A1+ (05-Jul-22)	2)CARE AA; Stable / CARE A1+ (24-Jan-22) 3)CARE AA (CE); Stable / CARE A1+ (CE) (07-Jul-21)	(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 (04-Jul-23)	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 (04-Jul-23)	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)
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 (04-Jul-23)	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	-	-	1)CARE AA; Stable (04-Jul-23)	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (29-Sep-22)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

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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