Udaipur Cement Works Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,699.81 (Enhanced from 1,010.65)	CARE AA; Stable	Reaffirmed
Long-term / short-term bank facilities	200.00 (Enhanced from 20.00)	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings for bank facilities of Udaipur Cement Works Limited (UCWL) continue to reflect strategic importance of UCWL to its parent – JK Lakshmi Cement Limited (JKLC; rated 'CARE AA; Stable/CARE A1+'), and the strong management, operational and financial linkages it has with JKLC, apart from 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 increased market presence of JKLC in its key market of northern and western India. UCWL increased its contribution to the group's total cement capacity from earlier 16% to 26% post 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 Limited (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 operating and financial performance in the last 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 MTPA post 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 cyclicality in the cement industry, which leads to variable profitability.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving credit profile of JKLC (parent).

Negative factors

- Deteriorating credit profile of the parent's (JKLC) profile.
- Materially changing shareholding of JKLC or the financial/operational support philosophy of the parent towards UCWL.
- Significantly deteriorating UCWL's operating performance.

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 bank facilities of UCWL reflects CARE Ratings' expectation that UCWL is likely to maintain its current operating performance in the medium term.

UCWL shall continue to benefit from strong linkages and continued support from the parent entity JKLC and strategic importance to it further aids financial risk profile of UCWL.

Detailed description of key rating drivers:

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

Key strengths

Strategic importance and strong operational linkages with parent

In FY24 (refers to April 01 to March 31), UCWL's revenue and profit before interest, lease rentals, depreciation and taxation (PBILDT) contributed 17% and 18% 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 increased 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 expansion in UCWL, which is expected to significantly boost UCWL's contribution to 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. Sourcing major raw materials, such as pet coke, coal and fly-ash is done at the group level, benefiting UCWL from JKLC's scale of operations. JKLC holds 75% of UCWL and one director on the company's board from the parent's board, held by JKLC's Chairman and Managing Director. JKLC has also extended a corporate guarantee (CG) for the entire outstanding debt of UCWL (except working capital borrowing and as well term loan of Rs. 50 crores which is for normal capex). CARE Ratings believes UCWL will remain strategically and operationally integral to JKLC and it will continue to receive the financial and operational support from the parent company.

Comfortable operating profile following sustained improvement

In FY24, the company registered a 12% growth in TOI in FY24 at ₹1,164 crore from ₹1,036 crore in FY23 driven by improvement in sales volume growth from 1.95 MTPA in FY23 to 2.49 MTPA in FY24, though sales realisations remained subdued. Volume growth was largely driven by healthy demand witnessed in residential real estate and government's push towards infrastructure, which also led to increase in proportion of non-trade sales in FY24.

No major price hikes are expected in FY25 amidst intense competition between existing players and softened overall demand growth against earlier years. Newly commercialised plant of 2.5 MTPA in UCWL is expected to ramp up its production providing overall support in volumetric growth for the company in FY25.

Post the significant pressure on operating costs in FY23, the company has been able to improve its operating profitability in FY24, leading to improving PBILDT margin from 12.92% in FY23 to 16% in FY24. Going forward, CARE Ratings expect an improvement in operating profitability in the medium term, as the company benefits from commercialisation of new plant deriving operating efficiencies, which will also be a key monitorable.

Improving 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 registered losses owing to the initial stabilisation phase. However, UCWL's operations have since stabilised, resulting in healthy cash accruals of about ₹90 crore, ₹100 crore, ₹87 crore and ₹138 in FY21, FY22, FY23, and FY24 respectively.

The accruals dipped in FY23 owing to reduced profitability pursuant to high fuel prices. Present capacity of cement grinding is 4.7 MTPA. On the operational front, the company has showed improvement in average power consumption per tonne of cement and clinker reducing significantly from 79 kWh in FY21 to 69 kWh in FY24 and going forward, as the company has operationalised newer and more efficient plant the power consumption is expected to reduce further.

Overall gearing improved to 1.82x as on March 31, 2024, from 4.48x as on March 31, 2023 (PY: 4.21x as on March 31, 2022), largely supported by the rights issue. The company had come out with rights issue offer for 24,91,27,853 shares aggregating to ₹448.43 crore in June/July 2023, which was subscribed fully. The object of the issue was towards part financing expansion and development of the Udaipur manufacturing plant. The promoter shareholding prior to rights issue as on March 31, 2023, was 72.54%. It now stands at 75% as on March 31, 2024, after rights issue.

The solvency and coverage indicators continue to be moderate but have improved on year-to-year basis with net debt/PBILDT at 6.91x as on March 31, 2024, improved from 9.08x as on March 31, 2023) led by relative improvement in operating profitability in FY24 and interest coverage stood at 2.74x (PY: 2.81x) respectively, as on March 31, 2024. Due to remaining project cost of around ₹320 crore to be incurred in FY25, coverage indicators are expected to remain around the current levels with some improvement in FY25 considering scheduled debt repayments and accretions to net worth.

Key weaknesses

Project related risk

The company commissioned its greenfield project adding clinker capacity of 1.50 million tonne in October 2023 and cement grinding capacity of 2.50 million tonne in March'24. Of the total project cost of ₹1650 crore, the company is expected to incur remaining amount of around ₹320 crore in FY25, having no material impact on the plant's day-to-day operations. Going forward, the company's ability to ramp up production from newly commissioned plant and derive cost efficiencies leading to improving operating profitability remains a key monitorable.

Exposure to price volatility in coal and fuel cost and sales realisation prices
The company is exposed to commodity price risk arising from raw material price fluctuation (gypsum, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for power generation to run its plants and fuel for kilns. In the recent past years, the cement industry witnessed significant spike in power & fuel costs post pent-up demand for fuel after the world started opening post multiple COVID-19 waves and vaccinations. The Russia-Ukraine war and other macro factors exacerbated fuel cost in FY22 and FY23. However, fuel costs have moderated in FY24, which reflected in improving profitability of UCWL and JKLC as well. The company's profitability will remain exposed to significant input cost volatility and cement price realisation, which depends on each region's demand and supply dynamics (volume growth and installed capacity) to cater to the demand in a particular region.

Liquidity: Adequate
UCWL's liquidity profile is adequate and derives strength from the overall strong liquidity of JKLC. Gross cash accrual (GCA) stood at ₹138 crore in FY24 (FY23: ₹87 crore) and it is expected to be in the range of ₹120 – ₹180 crore between FY25-FY27 against long-term debt repayment obligation of ₹67 crore in FY25, ₹84 crore in FY26 and ₹112 crore in FY27. The cash and cash equivalents stood at ₹133 crore as on March 31, 2024, with minimal utilisation of fund-based working capital facility (sanctioned limit of ₹30 crore, enhanced to ₹150 crore). Hence, bank lines are expected to comfortably meet incremental working capital requirement of the company. UCWL's liquidity profile draws comfort from strong liquidity of parent, JKLC.

JKLC (Parent) Liquidity – Strong
JKLC's liquidity position is strong marked by the GCA of ₹752 crore as on March 31, 2024 (PY: ₹614 crore), and cash & cash equivalents of ₹265 crore and liquid investments of ₹372 crore as on March 31, 2024, against consolidated repayment obligations of ₹246 crore in FY25. It is expected that GCA will further improve to the levels of ₹800-900 crore in the medium term against repayment obligations stand at ₹199 crore in FY26 and ₹164 crore in FY27. The company has modestly utilised its fund based working capital limits of ₹300 crore at 17% in 12-months through March 2024, which further provides a liquidity cushion. Hence, liquidity and accruals of the company are sufficient to meet debt obligations along with its capex plans. Being part of the JK group (eastern zone), and extensive promoter experience lends adequate financial flexibility to the company. CARE Ratings expects JKLC to maintain healthy liquidity in the medium term, which will help the company to tide over the cyclical nature of the cement industry.

Assumptions/Covenants: Not applicable

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 following initiatives have been undertaken by the company:

Environment: JKLC, as a group, has deployed strategies to reduce emissions from the production process. The company has been working towards greener and cleaner technology. The company has been improving the share of green technology and alternate fuels. Owing to this, the net carbon emission per tonne of cement has reduced from 584 kg to 555 kg. The company has registered Clean Development Mechanism (CDM) and Voluntary Carbon Standard (VCS) projects to address the global issue of climate change. The company is targeting to achieve a thermal substitution rate of 20% by FY30. It has also set a target to meet 100% of total electrical energy requirements through renewable energy by 2040.

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

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

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Cement
Factoring Linkages Parent Sub JV Group

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 doubled to 3 MTPA. The company inaugurated its Cement Grinding Unit at the Udaipur Plant in Dabok, Udaipur, Rajasthan on March 28, 2024, which increased its production capacity to 4.7 MTPA from 2.2 MTPA.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	878.99	1035.51	1163.59
PBILDT	148.70	133.75	186.12
PAT	48.66	35.86	61.41
Overall gearing (times)	4.21	4.48	1.82
Interest coverage (times)	2.96	2.81	2.74

A: Audited Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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-Cash Credit		-	-	-	50.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-June-2030	1100.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	30-June-2030	449.81	CARE AA; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	100.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	200.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	50.00	CARE AA; Stable	1)CARE AA; Stable (05-Apr-24)	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)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	200.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (05-Apr-24)	1)CARE AA; Stable / CARE A1+ (04-Jul-23)	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)
3	Fund-based - LT-Term Loan	LT	1100.00	CARE AA; Stable	1)CARE AA; Stable (05-Apr-24)	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)
4	Fund-based - LT-Term Loan	LT	449.81	CARE AA; Stable	1)CARE AA; Stable (05-Apr-24)	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)
5	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	-	-	-	-	-	1)Withdrawn (24-Jan-22) 2)CARE BBB+ / CARE A3+ (07-Jul-21)
6	Fund-based - LT-Working Capital Demand loan	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (05-Apr-24)	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)Withdrawn (05-Apr-24)	1)CARE AA; Stable (04-Jul-23)	1)CARE AA; Stable (06-Dec-22)	-

							2)CARE AA; Stable (29-Sep-22)	

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of all entities consolidated: Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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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 raise 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 the 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.

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