JK Lakshmi Cement Limited

July 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,117.75 (Enhanced from 919.26)	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

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings assigned to bank facilities, fixed deposit, and commercial paper (CP) of JK Laksmi Cement Limited (JKLC). The rating assessment continues to consider JKLC's diversified presence in the northern, western, and eastern Indian markets, supported by installed consolidated capacities of 16.5 MTPA as on March 31, 2024. Ratings further factor in the company's comfortable financial risk profile, the continued revenue growth backed by company's volume growth across regional markets, experienced promoters, established brand image and strong operating efficiencies led by backward integrated capacities, captive limestone reserves, and in terms of freight and power consumption parameters.

CARE Ratings also notes the successful commercialisation of the brownfield capex under subsidiary, Udaipur Cement Works Limited (UCWL) adding 2.5 MTPA to the overall cement capacity as on March 31, 2024, and the additional proposed capex plan of the company to add almost 6 MTPA of cement capacity in a calibrated manner by the end of FY27 funded through a mix of debt and internal accruals over the coming three/four years. CARE Ratings expects the financial risk profile to remain comfortable in the medium term amidst the increase in the term debt marked by below-unity gearing level and net debt/ profit before interest, lease rentals, depreciation and taxation (PBILDT), within the stipulated levels, backed by the expected increase in operating profitability, healthy accretions to the net worth, and continuance of the company's strong liquidity profile.

Ratings also consider the improvement in the operational risk profile of JKLC's subsidiary over past few years, UCWL, resulting in a healthy contribution of cash accruals at a consolidated level on a sustained basis.

However, ratings are constrained by the project risk associated with the proposed capex plans, 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

- Increasing capacities leading to improved market share in the regions of operation.
- Growing top-line and earnings before interest, taxes, depreciation, and amortisation (EBITDA) per tonne over 1,100 – 1,200 on a sustained basis.
- Improving capital structure leading to declining net debt/PBILDT to below 1x on a sustained basis.

Negative factors

- Deteriorating capital structure or increasing net debt / PBILDT levels beyond 2.25x on a sustained basis.
- Substantially declining operating profitability such that EBITDA per tonne is below ₹700 leading to weakening of debt coverage indicators on a sustained basis.
- Significant time and cost overrun in the ongoing project impacting its credit profile.

Analytical approach: Consolidated

CARE Ratings has considered a consolidated view of the parent, JKLC, and its subsidiaries owing to significant business, operational, financial, and management linkages between the parent and subsidiaries. Details of subsidiaries consolidated are listed in Annexure - 6

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

Outlook: Stable

The 'Stable' outlook for the bank facilities of JKLC signifies CARE Ratings' expectation that JKLC is likely to sustaining its strong financial risk profile and healthy business profile over the medium term.

Detailed description of key rating drivers:

Key strengths

Strong presence in northern market and growing footprint in other regions

JKLC has integrated cement capacities in Sirohi, Udaipur (both in Rajasthan), and Durg (Chhattisgarh); and grinding units in Jhajjar (Haryana), Cuttack (Odisha), Kalol, and Surat (both in Gujarat). The cement from its Sirohi (Rajasthan), Jhajjar (Haryana), Kalol (Gujarat), and Surat (Gujarat) plant is primarily sold in Rajasthan, Gujarat, and Madhya Pradesh, which contribute to more than ~75% of the sales from aforementioned plants, while Chhattisgarh and Odisha contribute to ~25% of cement from its Durg (Chhattisgarh) and Cuttack unit (Odisha). The company also has an outsourced capacity arrangement through a lease for the grinding capacity of 1.5 MTPA in Amethi, Uttar Pradesh, from Kanodia Cement; however, the company has reduced the volume of sales from the same based on its viability (lower profitability).

The company is in manufacturing Ordinary Portland Cement (OPC), Blended Cement (PPC), Portland Slag Cement (PSC), Ready Mix Concrete (RMC), and Autoclaved Aerated Concrete (AAC) Blocks. The company has established brands such as: JK Lakshmi Pro+, JK Lakshmi Cement, Platinum Heavy Duty Cement, and JKLC Sixer Cement. The company has also diversified in other related products category, ready –mix concrete (RMC) business, AAC and Plaster of Paris with the brand name JK Lakshmi Power Mix, JK Lakshmi Plast, JK SmartBlox, and JK GypGold.

The company has a cement capacity of 16.50 million tonne per annum (MTPA) at consolidated level (11.80 MTPA at standalone level and 4.70 MTPA in UCWL) as on March 31, 2024, including the newly commercialised cement capacity of 2.5 MTPA in UCWL operationalised on March 28, 2024. The company has power generating capacity of 198 MW at a standalone level and 28 MW in UCWL as on March 31, 2024. Additionally, the company has capacity of RMC aggregating to 7.92 lakh cubic metre and AAC capacity aggregating to 1.46 lakh cubic metre.

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 with highly cost-efficient plants, in terms of freight and power consumption parameters. On the power front, about 63% of JKLC's total power requirement (on a standalone basis) and 43% of UCWL's power requirement is met through captive power sources and balance is procured from the grid. JKLC has 198 MW of captive power capacity (Thermal 74 MW; WHRS 33 MW; Solar 87 MW; Wind: 4MW) and UCWL has 28 MW of captive power (WHRS 12 MW and Solar 16 MW). Overall, about 60% of total power requirement at consolidated level is being met through captive sources. In FY24, the cooling off in coal and pet coke prices have also led to an improvement in the power and fuel cost per ton against the previous year by 10% at ₹1,494/ton from ₹1,661/ton.

Additionally, limestone mines have sufficient proven reserves to support the operations of the company for more than 30-35 years and furthermore, in FY24, JKLC acquired 85% stake in Agrani Cement Private Limited (ACPL) for a cash consideration of ₹325.11 crore (out of which ₹125 crore has been paid in cash up till FY24). ACPL has three wholly owned subsidiaries, Trivikram Cement Private Limited, Mahabal Cement Private Limited, and Avichal Cement Private Limited (all four companies jointly called as Trivikram Consortium). Units of Trivikram Consortium have been jointly granted Mining Rights in Assam having Limestone Reserves of approximately 335 MTPA. Backward integration and proximity to major raw material sources endow the company with operating benefits, thereby aiding in cost efficiencies which is expected to continue going forward as well.

Healthy scale of operations

In FY24, the company on a consolidated basis has registered a modest growth of 6% from ₹6,457.44 crore in FY23 to ₹6,821.45 crore with a capacity utilisation of 86% (against 82% in the previous year), on the back of sales volume growth from 9.47 MT in FY23 to 9.6 MT in FY24, largely driven by the healthy demand witnessed in residential real estate and government's push towards infrastructure while realisations largely remained muted. The blended share in FY24 stood at 66% against 67% in the previous year. No major price hikes are expected in FY25 amidst intense competition between existing players and softened overall demand growth against earlier years. The 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. The anticipated commercialisation of the Phase 1 of JKLC's Surat Grinding Unit (GU) project of 0.7 MTPA out of total 1.35 MTPA by H2FY25 will also add to this volumetric growth, although, marginally in FY25.

Post the significant pressure on the operating costs in FY23 due to spike in power & fuel costs, and freight cost, the company has been able to improve its operating profitability in FY24. Pet coke and coal costs have significantly softened over the past year, which has been gradually leading to moderation in power & fuel cost per tonne to ₹1,494 in FY24 compared to ₹1,661 in FY23, leading to an improvement in PBILDT margin improved from 12.99% in FY23 to 15.42% in FY24. Going forward, CARE Ratings expects JKLC to continue improving its scale of operations through capacity augmentation while benefiting from the growth in the cement industry.

Comfortable financial risk profile

The company has a strong tangible net worth as on March 31, 2024, at ₹2,955 crore (₹2,763 crore as on March 31, 2023) on a consolidated basis. The company's financial risk profile stood comfortably though some moderation in the overall gearing at 0.78x as on March 31, 2024, against 0.76x in the previous year due to the anticipated increase in the term debt attributable to the debt-funded capex plans of the company. The net debt/PBILDT and the interest coverage stood at 1.6x (PY: 1.5x) and 7x (PY: 6.29x) respectively, as on March 31, 2024, on a consolidated basis, led by the improvement in operating profitability in FY24. Moreover, the company is expected to undertake a large capex for which additional debt of around ₹2,000 crore is expected to be drawn over the next three years due to which the solvency indicators will moderate. However, CARE Ratings expects the financial risk profile to remain comfortable marked by ND/PBILDT (inclusive of SD and LC) to remain within 2.25x in the medium term on the back of healthy operating profitability, healthy generation of cash accruals, and accretion to the net worth alongside the maintenance of strong liquidity position.

Key weaknesses

Project-related risk

The company plans to achieve 30 MTPA of cement capacity by FY30 for which it has plans to undertake capex of around ₹4,000 crore over the next three-four years in a calibrated manner funded through a mix of debt and internal accruals. On March 28, 2024, JKLC on a consolidated basis increased its cement capacity to 16.5 MTPA from 14 MTPA with the completion of its UCWL expansion project ahead of its schedule which was originally planned to be commissioned by October'24. The company is further expected to add 4.6 MTPA of cement capacity through Durg Expansion by the end of FY27 with a total project cost of ₹2,500 crore which includes adding a 2.3 million tons clinker line and four grinding units. This expansion will occur in two phases - first phase will add about 1.2 million tons in Prayagraj, UP, and 1.2 million tons in Durg Line 2 followed by 1 million tons in Jharkhand and 1.2 million tons in Bihar. Apart from this, the company is expected to commercialise GU Surat's first phase for 0.7 MTPA GU October'24 and the balance out of total 1.35 MTPA in the following year, while incurring a total capex of ₹225 crore. Simultaneously, the railway siding project at Durg is expected to be completed by the end of FY26, with its first phase expected to be commissioned by September 2024 and second phase by March 2026. The total project cost is estimated to be around ₹325 crore.

The company has acquired 85% stake in Agrani Cement Private Limited wherein the company is planning a capex for clinkerisation unit of 1.0 MTPA and cement grinding unit of 1.5 MTPA having a total project cost of around ₹1,500 crore.

With this large part of the capex planned for the future, the company remains exposed to project execution risk, which will be substantially funded through debt of around ₹2,200 crore and balance through internal accruals. With significant experience of the promoters, major financial closure being achieved, and their strong liquidity position, the risks are mitigated to an extent and CARE Ratings will continue to monitor JKLC's ability to be able to successfully complete all the capex and derive the envisaged benefits over a period from these without any significant times and cost overrun.

Exposure to volatility in prices of 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. Over the recent past years, the cement industry has witnessed significant spike in power and fuel costs post pent-up demand for fuel after the world started opening post multiple COVID-19 waves and vaccinations. Thereafter, the Russia-Ukraine war and other macro factors exacerbated the fuel cost in FY22 and FY23. However, fuel costs have moderated over the past year FY24 which reflected in the improvement of profitability of 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: Strong

JKLC's liquidity is strong marked by the gross cash accruals (GCA) of ₹752 crore as on March 31, 2024 (PY: ₹614 crore), cash & cash equivalents of ₹265 crore and additional liquid investments of ₹372 crore as on March 31, 2024 on a consolidated basis, against the consolidated debt 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% over the past 12 months through March 2024 which further provides a liquidity cushion. Hence, the liquidity and accruals of the company is sufficient to meet the debt obligations and 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 over the medium term which will help the company to tide over any the cyclical nature of the cement industry.

Assumptions/Covenants: NA

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. 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: The company has undertaken various CSR projects related to health, water and sanitation, education, 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 of good governance practice and policy, 50% of its board comprises independent directors, with split in chairman and managing director positions, a dedicated investor grievance redressal system has been put in place, and extensive disclosure measures are adopted.

Applicable criteria

Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Cement

About the company and industry

Industry classification

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

JKLC is a part of the JK Group (East) and was incorporated in 1938 and commenced the cement business in August 1982. It is one of the leading cement players in the northern, western, and eastern regions. As on March 31, 2024, the company's cement capacity stood at 16.50 million tonne per annum (MTPA) at consolidated level (11.80 MTPA at standalone level and 4.70 MTPA in UCWL). The company has power generating capacity of 198 MW at a standalone level and 28 MW in UCWL as on March 31, 2024. The company's cement plants are located in Rajasthan, Gujarat, Haryana, Chhattisgarh, and Odisha.

JK Lakshmi Cement Limited (Consolidated) -

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	5419.89	6457.44	6821.45
PBILDT	950.71	838.71	1052.15
PAT	477.58	369.11	487.87
Overall gearing (times)	0.84	0.76	0.78
Interest coverage (times)	6.69	6.29	6.99

A: Audited, UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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	817.75	CARE AA; Stable

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	Commercial paper-Commercial paper (Carved out)	ST	175.00	CARE A1+	-	1)CARE A1+ (04-Jul-23)	1)CARE A1+ (06-Dec-22) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (07-Jul-21)
2	Non-fund-based - ST-BG/LC	ST	1100.00	CARE A1+	-	1)CARE A1+ (04-Jul-23)	1)CARE A1+ (06-Dec-22) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (07-Jul-21)
3	Term loan-Long term	LT	817.75	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 (07-Jul-21)
4	Fund-based - LT-Cash credit	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Jul-23)	1)CARE AA; Stable (06-Dec-22)	1)CARE AA; Stable (07-Jul-21)

							2)CARE AA; Stable (05-Jul-22)	
5	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (05-Jul-22)	1)CARE AA; Stable (07-Jul-21)
6	Fixed deposit	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Jul-23)	1)CARE AA; Stable (06-Dec-22) 2)CARE AA; Stable (05-Jul-22) 3)CARE AA; Stable (22-Jun-22)	1)CARE AA (FD); Stable (21-Sep-21) 2)CARE AA (FD); Stable (07-Jul-21)
7	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jul-21)

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

Annexure-3: Detailed explanation of covenants of rated instruments: NA

Annexure-4: Complexity level of 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

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Udaipur Cement Works Limited	Proportionate	Operational, financial, and managerial linkages.
2.	Hansdeep Industries and Trading Company Limited	Full	
3.	Ramkanta Properties Private Limited	Full	
4.	Hi Drive Developers and Industries Private Limited	Full	
5.	Agrani Cement Private Limited	Proportionate	
6.	Avichal Cement Private Limited	Proportionate	
7.	Mahabal Cement Private Limited	Proportionate	
8.	Trivikram Cement Private Limited	Proportionate	
9.	Dwarkesh Energy Limited	Proportionate	

Note on complexity levels of 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:
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.

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