Credit Update – JK Lakshmi Cement Limited

August 09, 2024

CARE Ratings Limited (CARE Ratings) has taken cognisance of the Composite Scheme of Amalgamation and Arrangement between JK Lakshmi Cement Limited (JKLC), Udaipur Cement Works Limited (UCWL), Hansdeep Industries & Trading Company Limited (HITCL) and Hidrive Developers and Industries Private Limited (HDIPL) announced by JKLC on the stock exchanges on July 31, 2024, post approval from their Board of Directors. Three entities merged into JKLC are existing subsidiaries of the company, with JKLC having 71.12% of the shareholding in UCWL and 100% of the shareholding in HITCL and HDIPL. The entire transaction will be through share swap and no cash consideration will be paid. UCWL's shareholders will get four equity shares of JKLC with face value of ₹5 per equity share for every 100 shares held in UCWL, except of JKLC while no shares will be issued for the mergers of HITCL and HDIPL as JKLC already has 100% shareholding. The Scheme of Arrangement is anticipated to be effective April 01, 2024.

Subject to statutory and regulatory approvals, CARE Ratings does not foresee adverse impact on the company's credit profile as it has already followed a consolidated view of the parent, JKLC, and its subsidiaries owing to the significant business, operational, financial, and management linkages. UCWL forms 28% of the total consolidated cement capacity of JKLC at 4.70 MTPA of 16.50 MTPA as on June 30, 2024, post the recent expansion of 2.5 MTPA in March 2024. CARE Ratings had factored in economic incentive of subsidiary UCWL in ratings assigned to bank facilities of JKLC, while ratings of UCWL derived strength from its strategic importance and demonstrated track record of support extended by the parent, JKLC. CARE Ratings expects this merger to enhance synergies between entities through cost optimisation.

CARE Ratings continues to rate the company's bank facilities at "CARE AA; Stable/CARE A1+" factoring in JKLC's diversified presence in northern, western, and eastern Indian markets, experienced promoters, established brand image and strong operating efficiencies led by backward integrated capacities, captive limestone reserves, and optimum freight and power consumption parameters. CARE Ratings expects the financial risk profile to remain comfortable in the medium term amidst increase in the term debt marked by below-unity gearing level and net debt/ profit before interest, lease rentals, depreciation and taxation (PBILDT), within stipulated levels, backed by an expected increase in operating profitability, healthy accretions to the net worth, and continuance of the company's strong liquidity profile.

However, ratings remain constrained by project risk associated with the company's proposed capex plans to add almost 6 MTPA of cement capacity in a calibrated manner by end of FY27, funded through a mix of debt and internal accruals, susceptibility to risks relating to varying input costs and realisations, and cyclicality in the cement industry, which leads to variable profitability.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and rating sensitivities of following companies.

Sr. No.	Entity Name	Link to press release
1.	JK Lakshmi Cement Limited	Click here

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About us:
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