

Credit Update – Udaipur Cement Works Limited

August 09, 2024

CARE Ratings Limited (CARE Ratings) has taken cognisance of the announcement made by the parent entity, JK Lakshmi Cement Limited (JKLC) of the Composite Scheme of Amalgamation and Arrangement to merger Udaipur Cement Works Limited (UCWL), Hansdeep Industries & Trading Company Limited (HITCL) and Hidrive Developers and Industries Private Limited (HDIPL) with itself on July 31, 2024, post approval of JKLC's Board of Directors. As on June 30, 2024, JKLC has 71.12% of UCWL's shareholding and 100% 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 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. UCWL forms 28% of the total consolidated cement capacity of JKLC with 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 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+" strategic importance of UCWL to its parent JKLC, and strong management, operational and financial linkages it has with JKLC, apart from demonstrated support it received from its parent entity in the past. As a subsidiary of JKLC, UCWL increased market presence of JKLC in its key market of northern and western India.

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

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

Sr. No.	Entity Name	Link to press release
1.	Udaipur Cement Works Limited	Click here

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Sabyasachi Majumdar Senior Director CARE Ratings Limited Phone: +91-120-445-2006 E-mail: sabyasachi.majumdar@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ravleen Sethi Director CARE Ratings Limited Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in
	Akhil Kumar Associate Director CARE Ratings Limited Phone: 91-120-4451986 E-mail: akhil.kumar@careedge.in

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