Wonder Cement Limited

September 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,693.06 (Enhanced from 2,883.31)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	1,600.00	CARE AA; Stable / 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 of Wonder Cement Limited (WCL). Ratings continue to factors in consistent growth in its scale of operations for the last five years, largely driven by consistent improving sales volume with ramp-up of installed capacities, healthy revenue growth in FY24 (refers to April 01 to March 31) and Q1FY25 (refers to April 01 to June 30). In FY24, the company increased the cement grinding capacity from 13.50 MTPA as on March 31, 2023, to 19 MTPA as on March 31, 2024, with commercialisation of two grinding units in Uttar Pradesh and Gujarat. WCL has maintained strong market position, primarily aided by continuous increase in its production capacity in the last few years. The company has further proposed a capex plan to expand its existing plant location at Nimbahera, to add 2.8 MTPA of clinker capacity and 2.5 MTPA cement capacity to support the company's growth plans.

Ratings continue to derive strength from the strong brand presence, established marketing and distribution network in the northern, central and western pockets of India with gradual expansion in other Indian states, and its cost competitiveness due to access to captive limestone mines and captive sources of power. Ratings also factor in resourcefulness of promoters and professionally driven management of the company.

However, ratings are constrained due to its geographical concentration with installed capacities of clinker at one location, limiting its sales largely in the northern and western markets and few areas of central India, moderate capital structure, project risk associated with proposed capex plans, risks susceptible to varying input costs and realisations, and cyclicality in the cement industry, which leads to variability in the profitability.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing top-line by ~25% or more, while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) per tonne at ₹1000 per tonne levels on a sustained basis.
- Improving Net Debt/PBILDT below 1.5x on sustained basis.

Negative factors

- Declining PBILDT per tonne below ₹800 on a sustained basis, leading to weakening debt coverage indicators.
- Substantially declining sales volume resulting in lower capacity utilisation of plants and declining total operating income (TOI).
- Deteriorating leverage indicators with increase in net debt(ND) /PBILDT above 2.3x on a sustained basis or total gross debt exceeding ₹3,000 crore.

Analytical approach: Consolidated

Consolidated, owing to the strong operational and strategic linkages with its subsidiaries. Entities are in the same line of business, sell under common brands, and have common management and control. WCL has also issued corporate guarantee for bank facilities of Wonder Wallcare Private Limited (WWPL).
Details of entity consolidated is listed under Annexure 6.

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

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Consistent growth in the scale of operations driven by increase in installed capacity and increasing sales volume

WCL commenced clinker production at the newly commissioned Line-IV with a capacity of 2.8 MTPA at its Nimbahera plant from March 01, 2023, taking its total clinker capacity to 10.55 MTPA. It also increased cement grinding capacity from 13.50 MTPA as on March 31, 2023, to 19.00 MTPA as on March 31, 2024, with commercialisation of two grinding units , in Aligarh in April 2023 and Tulsigam in October 2023 with and installed capacity of 2.5 MTPA and further expanded capacity at its existing Jhajjar unit by 0.5 MT in July'23 at a cost of ₹4 crore.

In FY24, the company reported a total revenue from operations of ₹7171 crore, a growth of 19% over the previous year from ₹6021 crore in FY23 considering improved sales volumes while realisations remained flat during the year. The PBILDT margin stood improved to 19.01% in FY24 against 14.02% in FY23 considering stabilisation of fuel cost from ₹2.5/Kcal in FY23 to ₹1.89/Kcal in FY24. In FY23, cost pressures significantly deteriorated the company's margin, which subsided now as witnessed by margin improvement. PBILDT/tonne dropped at ₹770/tonne in FY23 against ₹969/tonne in FY22 and ₹1250/tonne in FY21, which improved to ₹1051/t in FY24 with coal and pet coke prices declining from its peak levels in FY23.

WCL's clinker conversion factor stood at 1.32x in Q1FY25, the company is increasing its focus on trade channels with a targeted ratio of 1.4x in the medium term. In FY24, the capacity utilisation of clinker remained high at 95-100% and overall capacity utilisation of the cement also stood at 69% as capacities were commercialised during the year. Going forward, a cement capacity utilisation of ~75% is envisaged in the medium term. The company's total sales volume increased by 19% Y-o-Y to 12.97 MT from 10.94 MT, while in Q1FY25, the company reported a sales volume of 3.65 MT against 3.47 MT in Q1FY24. Sales realisation largely remained flat during the year. Going forward, CARE Ratings expects WCL to continue improving its scale of operations through capacity augmentation, while benefiting from the growth in the cement industry.

Strong brand presence in demand accretive regions with established marketing and distribution network

WCL is among the top 15 grey cement manufacturers in India with a presence across north, central and west India and sales spread across regions. WCL has a strong presence in north India, where it is in top six cement manufacturers. WCL sells its cement under the brand name of 'Wonder', which it markets in Rajasthan, Madhya Pradesh, Gujarat, Haryana, Uttar Pradesh, Maharashtra, Delhi NCR, Uttarakhand, Punjab, Himachal Pradesh, Jammu and Kashmir, and Dadar-Haveli through its team of marketing professionals, business partners and a wide distribution network of dealers. Rajasthan continues to remain a strong market for WCL. With WCL gradually increasing its footprint across new states, sales contribution from Rajasthan declined from 40% in FY19 to 28% in FY24 and 26% in Q1FY25. The company has also gradually increased its presence into new markets over the years, with Madhya Pradesh and Gujarat contributing 17% each, and Haryana contributing 10% of sales in Q1FY25.

Healthy operating efficiency due to integrated business operations supported by captive limestone mines and power plant

WCL derives high operational efficiency from availability of captive limestone mines and captive sources of power. The estimated mining is over 680 MMT (including new mines acquired in Jaisalmer) against the annual budgeted requirement of ~15.67 MMT for existing cement plants. WCL also derives operating efficiency with access to low-cost captive sources of power, including CPP, waste heat recovery plant (WHRP) and solar and wind energy sources (total 129.50 megawatt [MW]). The company has undertaken technical projects to increase its power consumption efficiency for instance installation of power coolers, ultimately contributing to overall increase in operational efficiencies. The power consumption per MT of cement production has reduced to 64.42 KWH/MT of cement in FY24 (PY: 66.92 KWH/MT) from 73.22 KWH/MT of cement in FY21.

The company has also started group captive solar plant for two of its grinding units – Aligarh and Tulsigam through a third party power purchase agreement (PPA), which will expectantly replace 40-45% power requirement of the individual plant, while remaining will continue from the grid. At an overall basis, WCL's captive power resources catered ~55% of its total power requirements in FY24 and with balance met through the grid.

Moderate capital structure

The company's capital structure marked by net worth of ₹2593 crore and a ND of ₹2628 crore as on March 31, 2024, remained moderate. Overall gearing stood at 1.13x as on March 31, 2024, against 1.31x in the previous year while interest coverage remained at similar level in FY24 at 5.84x. The company will take additional debt of ₹1000 crore to fund its capex plans in the medium term.

However, CARE Ratings expects the financial risk profile to improve marked by ND/PBILDT (inclusive of DD and LC) to remain below 2x in the medium term, as the ND levels are not expected to increase beyond ₹2500 crore and further considering healthy operating profitability, healthy generation of cash accruals, scheduled debt repayments and accretion to net worth, and maintaining adequate liquidity position. Overall gearing is expected to range below 1x, and interest coverage is expected to improve between 5-7x in the medium term.

WCL is eligible for state subsidies under value-added tax (VAT) refund scheme, which continues on state goods and services tax (SGST) basis, while netting off input tax credit post implementation of GST. The company has been accruing the subsidy amount and has been receiving though with some delay. Outstanding balance as on March 31, 2024, is ₹437.30 crore, majorly from Government of Maharashtra and Government of Haryana. Hence, CARE Ratings understands that the timely receipt of balance and additional subsidy from the respective state governments remains a monitorable.

Resourceful promoters and professional management
WCL is promoted by the Rajasthan-based R K group. The group's flagship company, R.K. Marble Private Limited (RKMPL), is one of the largest players in the marble industry in India. Promoters possess over three decades of experience in the marble industry. WCL's operations are run by professional management having vast experience in the cement industry.

Key weaknesses

Project related risk
The company will be undertaking a project with a total cost outlay of ₹1500 crore in the medium term towards expansion of existing plant location Nimbahera as Line V. The Clinkerization Line V will have a clinker unit of 2.8 MTPA and a grinding capacity of 2.5 MTPA, which will take the total clinker capacity and cement capacity of WCL to 13.36 MTPA and 21.5 MTPA respectively from current capacities of 10.55 MTPA and 19 MTPA respectively as on June 30, 2024, and the grinding unit a WHRU of 12MW is also planned to be installed, to be commercialised by FY27.
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 ₹1000 crore and balance through internal accruals. With significant experience of the promoters and track record of commissioning projects before COD, risks are mitigated to an extent and CARE Ratings will continue to monitor WCL's ability to be able to successfully complete all capex and derive envisaged benefits over a period without significant time and cost overruns.

Presence in the cyclical cement industry and geographical concentration of clinker capacity in comparison to its peers
The company is exposed to inherent cyclicality present in the cement industry with high correlation between economic growth and consumption of cement. This can in turn impact capacity utilisation and sales realisation of WCL as its prospects would be intricately linked to market forces and demand-supply scenario. WCL is exposed to inherent risks related to operating its major capacity at single location unlike other large players in the industry. WCL has geographically diversified its grinding capacity at five locations. WCL's clinker capacity is concentrated at single location compared to geographically diverse capacity of other large players. Geographically diverse clinker capacity of other large players strengthens their competitive advantage to serve diverse market, while optimising lead time.

Exposure to coal and fuel cost price volatility 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 is used for power generation to run its plants and fuel for kilns. Over the recent past years, the cement industry 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. The Russia-Ukraine war and other macro factors exacerbated fuel cost in FY22 and FY23. Fuel costs have moderated in the last year, FY24, which reflected in WCL's improved profitability 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
WCL's liquidity profile is adequate marked by gross cash accruals (GCA) of ₹1043 crore as on March 31, 2024, and cash and bank balance of ₹296 crore as on July 31, 2024. The GCA is expected to range ~₹1100 crore in the medium term to adequately meet repayment in FY25, FY26 and FY27 of ₹254 crore, ₹421 crore and ₹409 crore respectively. WCL generally stocks inventories of ~45-50 days for pet coke. While most cement sales are on cash basis, suppliers are paid within 30 days. As a result, the company's operating cycle remained in the range of 40-60 days in FY19-23 with 50 days in FY24 (PY: 48 days). Utilisation of fund-based working capital limits stood at 31% for 12-months ended June 2024, and the non fund-based working capital utilisation stood at 24% with outstanding LC and BG of ₹142.09 crore and ₹160.11 crore respectively as on July 31, 2024. Accepted LC as on July 31, 2024, stood at ₹142.09 crore. Utilisation of non-fund-based facilities is largely due to the increasing use of LC-based creditors

for the import of pet coke and also for import of machinery for capex. The cash flow from operations improved to ₹1209 crore in FY24 compared to ₹557 crore in FY23 considering stabilisation in raw material and energy prices, which saw a steep rise in FY23.

Considering the liquid balance available with the company and expected improvement in accruals, CARE Ratings expects WCL's liquidity position to remain adequate in the medium term to meet scheduled debt repayments and support the company's growth plans.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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
Consolidation
Factoring Linkages Parent Sub JV Group
Cement

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

Promoted by the R. K. group of Rajasthan, WCL is engaged in manufacturing Ordinary Portland Cement (OPC) of 53 and 43 grade and Portland Pozzolona Cement (PPC). WCL has an integrated production facility having installed cement grinding capacity of 19.00 million metric tonne per annum (MTPA) for product of cement (7 MTPA at Rajasthan, 2.00 MTPA at Maharashtra, 2.00 MTPA at Madhya Pradesh, three MTPA at Haryana, 2.5 MTPA at Uttar Pradesh and 2.5 MTPA in Gujarat) and on March 01, 2023, its clinker capacity has expanded from 7.75 MMTPA to 10.56 MTPA on commencement of Line-IV clinker plant at its existing plant location at Nimbahera, Rajasthan. WCL has 129.50-megawatt captive power plant (70 MW through thermal power plant, 42 MW through WHRP, 15 MW through wind power plant and 2.50 MW through solar power plant) as on June 30, 2024.

Brief Financials (₹ crore) Consolidated –	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	4535	6021	7171
PBILDT	874	844	1363
PAT	259	250	430
Overall gearing (times)	1.10	1.31	1.13
Interest coverage (times)	5.75	5.84	5.84

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31-07-2030	657.25	CARE AA; Stable
Fund-based - LT/ ST-Bank Overdraft		-	-	-	500.00	CARE AA; Stable / CARE A1+
Fund-based - LT/ ST-Cash Credit		-	-	-	300.00	CARE AA; Stable / CARE A1+
Non-fund-based-LT/ST		-	-	-	800.00	CARE AA; Stable / CARE A1+
Term Loan-Long Term		-	-	01-01-2034	2510.00	CARE AA; Stable
Term Loan-Long Term		-	-	01-01-2029	525.81	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	Term Loan-Long Term	LT	2510.00	CARE AA; Stable	-	1)CARE AA; Stable (29-Dec-23) 2)CARE AA-; Stable (04-Apr-23)	1)CARE AA-; Stable (08-Nov-22)	1)CARE AA-; Positive (05-Oct-21)
2	Non-fund-based-LT/ST	LT/ST	800.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Dec-23) 2)CARE AA-; Stable / CARE A1+ (04-Apr-23)	1)CARE AA-; Stable / CARE A1+ (08-Nov-22)	1)CARE AA-; Positive / CARE A1+ (05-Oct-21)
3	Fund-based - LT/ ST-Cash Credit	LT/ST	300.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Dec-23) 2)CARE AA-; Stable / CARE A1+ (04-Apr-23)	1)CARE AA-; Stable / CARE A1+ (08-Nov-22)	1)CARE AA-; Positive / CARE A1+ (05-Oct-21)
4	Term Loan-Long Term	LT	525.81	CARE AA; Stable	-	1)CARE AA; Stable (29-Dec-23) 2)CARE AA-; Stable (04-Apr-23)	1)CARE AA-; Stable (08-Nov-22)	1)CARE AA-; Positive (05-Oct-21)

5	Fund-based - LT-Term Loan	LT	657.25	CARE AA; Stable	-	1)CARE AA; Stable (29-Dec-23) 2)CARE AA-; Stable (04-Apr-23)	1)CARE AA-; Stable (08-Nov-22)	1)CARE AA-; Positive (05-Oct-21)
6	Fund-based - LT/ ST-Bank Overdraft	LT/ST	500.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Dec-23) 2)CARE AA-; Stable / CARE A1+ (04-Apr-23)	-	-

LT: Long term; ST: Short 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-Term Loan	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Fund-based - LT/ ST-Cash Credit	Simple
4	Non-fund-based-LT/ST	Simple
5	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Wonder Wallcare Private Limited	Full	Operational, managerial and financial linkages.

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sabyasachi Majumdar Senior Director **CARE Ratings Limited** Phone: 91-120-4452006 E-mail: sabyasachi.majumdar@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 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

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