J.K. Cement Works (Fujairah) FZC

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	51.00* (Reduced from 136.00)	CARE A+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.
*Facilities rated of US $6 million, converted at 1US$ = ₹85

Rationale and key rating drivers

Reaffirmation in the rating assigned to bank facilities of J.K. Cement Works (Fujairah) FZC (JKCWF) continues to factor in the company's strong parentage, as it is a step-down subsidiary of J.K. Cement Limited (JKCL) and strong managerial, financial and operational support that it derives from the ultimate parent JKCL. CARE Ratings Limited (CARE Ratings) believes that JKCWF will remain strategically and operationally integral to JKCL's operations. Further, JKCL has a stated position to support subsidiary's debt obligations in the form of letter of comfort (LoC) to JKCWF's lenders. Ratings also consider JKCL's dominant position and strong brand image in grey cement and white cement segments, ensuring a diversified product mix, providing healthy margins and extensive experience of promoters in cement business.
However, rating strengths are constrained by JKCWF's relatively moderate financial profile, high susceptibility to volatility in input costs, and cyclicality associated with cement industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving credit profile of parent, JKCL.
- Sustainably growing total operating income (TOI), going forward, with operating profitability improving such that it contributes meaningfully to the parent at consolidated level without deterioration in its capital structure.

Negative factors

- Weakening of the parent's credit profile or reducing shareholding/support extended to JKCWF.
- Substantially declining operating profitability such that earnings before interest, taxation, depreciation, and amortisation (EBITDA) declines on a sustained basis leading to weakening of coverage indicators.

Analytical approach:

Standalone, however, factoring strong linkages with the ultimate parent company, JKCL (rated 'CARE AA+; Stable / CARE A1+'), owing to strong managerial, operational, and financial linkages.

Outlook: Stable

The stable outlook reflects CARE Ratings' belief that the company will continue to derive benefit from operational and management linkages with JKCL while improving its business profile over the medium-to-long term.

Detailed description of key rating drivers:

Key strengths

Strategic importance to the parent entity demonstrated by significant financial support extended by JKCL in past
JKCL is the second-largest producer in India and third-largest producer globally of white cement with an installed capacity of 3.05 MTPA (at a consolidated level of white cement and wallputty). JKCL's grey cement capacity on a consolidated stood at 24.24 MTPA as on June 30, 2024.
JKCWF with its dual capacity plant, adds 0.6 MTPA of white cement capacity to JKCL's consolidated capacity, JKCWF is having independent manufacturing facility and limestone reserve in Fujairah, UAE. Wall putty, white cement and value-added products are significant contributors to JKCL's revenue and profitability. Share of white cement and value-added products in total revenue of JKCL stood at 19% in FY24 and remained steady at ~22-30% of the total revenue for past five years ending FY23. JKCL is

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

focusing to maintain a steady contribution of white cement and wall putty to its top line by increasing market share of value-added products and also increasing capacity utilisation for white cement.
JKCWF caters majority of J.K. Cement's white cement market demand in South India. Its direct sales are under brand name of J.K. Cement Works (FZC) Fujairah, however 20%-30% portion of sales is directed through J.K. Cement Limited itself. JKCWF caters GCC (20% revenue contribution in CY23, PY: 24%), UAE (19% revenue contribution in CY23, PY: 19%) majorly apart from sales made in India. Hence, JKCWF has strong operational linkages with JKCL to ensure that the latter maintains its market share in the white cement segment in these markets. Furthermore, the company's strategic importance can be demonstrated by significant equity infusions made by parent over the years. JKCL through its 100% owned subsidiary, JKCF has prepaid the entire loan of JKCWF in CY22. JKCL has made equity investment of ₹692.15 crore into JKCF as on March 31, 2024.
Further, JKCF has invested into JKWCF by way of equity share capital, compulsory convertible preference shares and redeemable preference shares (RPS). During the year, JKCF holder of RPS surrendered its right on RPS to the extent of 226,637 redeemable preference shares, leading to a capital contribution of ₹549.45 crore and the balance portion of redeemable preference shares is expected to continue in books; however, no repayment against this is envisaged in the medium term.
CARE Ratings believes that JKCWF would remain strategically and operationally integral to the parent and hence JKCL would continue to extend financial support in the future.

Experienced promoters, strong management linkages and strong brand equity
JKCWF has a broad-based board with experienced and qualified management team headed by HH Sheikh Mohammed Bin Hamad Al Sharqi as Chairman and Dr. Raghavpat Singhania (Managing Director and Executive Director at JKCL) as Managing Director. The company shares few key personnels with JKCL, providing managerial expertise which facilitated JKCWF's growth in the past. JKCL holds 90% of JKCWF indirectly through J.K. Cement Fujairah (holding company of JKCWF and 100% owned subsidiary of JKCL) and four directors on the company's board are from the parent's board. Further JKCWF also sells under the brand name of JK Cement leading to common brand linkages with the group's flagship entity.

Moderate but improving operational performance driven by volume growth and realisation improvement
JKCWF's total revenue from operations increased by 39% in CY23 to ₹517.69 crore from ₹372.55 crore in the previous year, considering improvement in sales volume (31%, Y-o-Y) and blended sales realisation (6%, Y-o-Y). In CY23, cement sales volume increased to 0.55 MT (million tonnes) from 0.42 MT at a capacity utilisation of 66% (PY: 47%). Further, significant cost pressures faced by the industry due to heightened fuel costs and severe freight cost inflation deteriorated the margins of industry players in CY22, however this subsided in CY23 as witnessed by profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 10.58% in CY23 an improvement from 2.13% in the previous year.
Further, in H1CY24, the company reported TOI of ₹374.65 crore compared to ₹211.58 crore in the previous year. PBILDT margin also improved to 9.84% in H1CY24 against 3.63% in H1CY23.
Going forward, CARE Ratings expects growth momentum to continue as utilisation levels rise in the medium term supported by healthy demand of white cement.

Key weaknesses

Moderate capital structure and cash losses
JKCWF's capital structure has weakened due to cash losses incurred in the past years due to which JKCWF's net worth eroded. However, in CY23, the company' net worth turned positive supported by the capital contribution from JKCL. Overall gearing as on December 31, 2023, and June 30, 2024, stood at 5.40x and 4.43x, respectively against negative indicators last year.
The company's total cash and bank balance remains adequate against no outstanding repayment obligations against the company as on June 30, 2024, at ₹4.56 crore. Losses incurred were attributable to low-capacity utilisation as the company started its operations in 2014 with additional setback of Covid-19 pandemic impeding anticipated progress and high interest costs. JKCWF prepaid its term loan and related interest through financial support extended by JKCL in the form of equity infusions and the company continues to have nil external long-term debt on books as on June 30, 2024, however, depends on the parent for capital expenses.

Inherent cyclicality associated with cement industry and exposure to volatility in PBILDT due to input costs
JKCWF imports pet coke from USA and other countries and has a significant dependence on petroleum coke for the production of white cement exposing the company to adverse volatility in prices of commodities. As seen in the past, cement players, including the company, were not able to pass the significant rise in fuel costs, however, from October 2022, prices of coal and pet coke remained volatile but gradually followed a downward trend. Accordingly, the company's power and fuel cost per tonne reduced by 10% Y-o-Y in CY23.
The company's another major cost component is freight cost as majority sales is derived out of Southern India, GCC, UAE, Africa and RoW. In CY23, freight cost relatively eased to ₹1647/tonne against severe inflation in CY22 (CY22: ₹1866/t and CY21: 1921/t), yet since November 2023, rising disruptions in Black Sea and Panama Canal due to climate-induced droughts, rose the freight cost to ₹1848/tonne in H1CY24. While the combined impact of these disruptions has not yet matched the scale of pandemic-induced logistical crisis of 2021–2022, this will be monitorable.
Additionally, the company is exposed to the risk of adverse fluctuation in exchange rates. Besides, its realisations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry.

Liquidity: Adequate

The company's liquidity position is adequate marked by total cash and bank balance ₹4.56 crore as on June 30, 2024, (₹2 crore as on December 31, 2023) against no debt repayment obligation of term loan as ended December 31, 2022, the company closed out the term loan through early repayment. Gross cash accrual (GCA) stood positive at ₹38.74 crore as on December 31, 2024, against losses incurred in the past years while it stood at ₹20.83 crore for H1CY25. The company's average utilisation of bank lines for the trailing 12 months ending August 2024 has been sparsely utilised and stood at 18%, which provides the company with the cushion to meet fluctuations in cash flows in adverse market situations.

JKCWF's liquidity profile is supported by strong liquidity profile of parent JKCL, having total cash and liquid investments of ₹1601 crore as on March 31, 2024, on a consolidated basis, and a liquid balance of ₹1685 crore as n June 30, 2024 (at a standalone basis). Average utilisation of fund-based working capital limits is comfortable at ~61% for 12 months ending August 2024. Cashflow from operations also improved to ~₹1970 crore in FY24 compared to ~₹1480 crore in the previous year.
Further, the company would maintain free cash balances in the range of ~₹500-700 crore, and balance surplus cash would be expected to be utilised as equity contribution for future expansion plans or for prepayment of loans. The company has principal repayments of ₹540 crore, ₹532 crore and ₹553 crore in FY25, FY26 and FY27 respectively, on a consolidated basis against expected accruals in the range of ₹1,400-1,900 crore over the next couple of years. Accruals are also expected to meet incremental capex and working capital requirements after servicing debt commitments and liquidity with JKCL shall act as on additional buffer as and when required by the management.

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
Cement
Factoring Linkages Parent Sub JV Group

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Construction materials	Cement and cement products	Cement and cement products

JKCWF was incorporated in March 2008. It is a step-down subsidiary of JKCF, a wholly-owned subsidiary of JKCL. The company is primarily involved in manufacturing and sale of white cement in Middle East and GCC markets with its dual process cement plant of a capacity either to produce 0.6 million tonne per annum (MTPA) of white cement or 1.0 MTPA of grey cement. The plant is specially designed to switch from one product to another (white to grey cement and vice-versa) per market demand. The plant has been set up in association with Fujairah Investment Establishment (Government of Fujairah Undertaking) and commenced its commercial production in September 2014, enabling JKCWF to supply white cement and other cement-based value-added products to more than 40 countries across the globe.

Brief Financials (₹ crore)	December 31, 2022 (A)	December 31, 2023 (A)	H1CY24 (UA)
Total operating income	372.55	513.59	254.03
PBILDT	7.92	54.33	28.16
PAT	-69.25	-29.13	-18.05
Overall gearing (times)	-2.73	5.40	4.43
Interest coverage (times)	0.45	3.55	1.68

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

*The company follows calendar year and conversion rates used are: 1AED= ₹22.54 (30-06-24), 1AED= ₹22.54 (31-12-23) and 1AED = ₹20.64 (31-12-22).

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/ ST-Term loan	-	-	-	07/09/2024	51.00	CARE A+; 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-Term Loan	LT	-	-	-	1)Withdrawn (01-Aug-23)	1)CARE AA+ (CE); Stable (08-Aug-22)	1)CARE AA+ (CE); Stable (03-Aug-21)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)Withdrawn (01-Aug-23)	1)CARE A (08-Aug-22)	1)CARE BBB- (03-Aug-21)
3	Fund-based - LT/ ST-Term loan	LT/ST	51.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (11-Oct-23)	-	-

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Term loan	Simple

Annexure-5: Lender details

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

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 **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 Bhawna Rustagi Assistant Director **CARE Ratings Limited** Phone: 91-120-4452045 E-mail: Bhawna.Rustagi@careedge.in Bhoomika Sharma Analyst **CARE Ratings Limited** E-mail: Bhoomika.Sharma@careedge.in

About us:

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