JK Lakshmi Cement Limited

September 21, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Fixed Deposit	100.00 (Enhanced from 75.00)	CARE AA (FD); Stable [Double A (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium Term Instruments	**100.00** **(Rs. One Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments (including fixed deposits) of JK Lakshmi Cement Limited (JKLC) continue takes into account substantial improvement in the company's consolidated financial risk profile over the past few years leading to below unity gearing level and comfortable total debt/PBILDT ratio as at FY 21 end. The rating further factors in strong operational performance driven by the company's robust volume growth across regional markets, improved cost efficiencies and higher sales realization achieved during FY20 and FY21. The improved financial performance has led to a built-up of strong liquidity position at consolidated level thereby enabling the company to undertake the proposed capex of 2.5Million Tonne Per Annum (MTPA) in Udaipur Cement Works Limited (UCWL) over the next 2.5 years comfortably without significantly increasing the consolidated gearing. The rating also considers the improvement in the operational risk profile of JKLC's subsidiary i.e. Udaipur Cement Works Limited (UCWL) resulting in healthy contribution of cash accruals at consolidated level.

The rating continues to derive strength from the company's experienced promoters, its strong brand image, its diversified presence in the northern, western and eastern Indian markets and strong operating efficiencies in terms of freight and power consumption parameters.

The rating is, however, constrained by the project risk associated with the proposed capacity augmentation plan in UCWL, cyclicality associated with the cement industry, exposure to volatility in input costs, dependence of cement demand on construction activity and infrastructure spend in the economy and the uncertainty regarding the ongoing Covid-19 pandemic.

Rating sensitivities:

Positive sensitivities:

- Increase in capacities leading to improved market share in the regions of operation
- Sustained growth in top-line by around 15% - 20% p.a. while maintaining profitability margins at over 20%.
- Improvement in the capital structure

Negative sensitivities:

- Deterioration in capital structure or increase in overall gearing levels beyond unity on a consolidated basis.
- Substantial decline in PBILDT margins below 15%-16% leading to weakening of debt coverage indicators.
- Substantial decline in sales volume resulting in lower capacity utilization of plants and decline in the total operating income on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and strong brand image

JKLC's promoters have had an extensive experience of about four decades in the business of cement manufacturing. The company has a strong presence in northern and western markets of India where it sells its produce under the brand name *JK Lakshmi Cement.* The company also sells cement under the brand names *JK Lakshmi Pro+, Platinum and JK Sixer Cement* in the premium segment.

Strong presence in northern and western region along with diversification with presence in eastern region

JKLC has integrated cement capacities at Sirohi and Udaipur (in Rajasthan) and Durg (Chhattisgarh), and grinding units at Jhajjar (Haryana), Cuttack (Orissa), Kalol and Surat (both in Gujarat). JKLC has expanded its presence across the northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), western (Gujarat, Maharashtra, Madhya Pradesh) and eastern regions (majority sales from Chhattisgarh and Odisha; rest from Bihar and West Bengal). Rajasthan and Gujarat forms major markets of the company contributing more than 50% of the total sales volume. However, the company has also diversified its presence in Chhattisgarh and Odisha which contributes about 20% of the total sales. The company has also started cross-selling of cement brands under JKLC and its subsidiary, UCWL, which has helped the company to cater for the rising demand from nearby areas of Rajasthan and Gujarat and reduce freight costs.

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, in terms of freight and power consumption parameters. JKLC meets about 75% of its power requirements through its captive power capacity (coal, waste heat recovery and solar plants) of 113 MW which results in lower power cost compared to utility power by at-least Rs.3.5/unit-Rs.4/unit.

Despite impact of Covid-19 pandemic, the capacity utilization (including UCWL) has increased to 79% during FY21 as against 74% in FY20.

The limestone mines have sufficient proven reserves to support the operation for about next 35-40 years. Backward integration and proximity to major raw material sources endow the company with operating benefits, thereby reducing its cost of production. During FY21, amidst surge in pet coke prices, the company has reduced its dependence on pet coke and increased coal use in the fuel mix, which has resulted in lower per tonne fuel cost as compared to the level of FY20. Besides, the company has been able to rationalise its freight costs by optimising its sources among its group's units.

Additionally, the company is undertaking 10 MW Waste Heat Recovery plant in Sirohi, which is expected to be operational by FY22 and the same shall result in further savings in power cost.

Nonetheless, the recent upward trajectory of the input costs exposes the cement operations to volatility in prices in future and it remains to be seen to what extent the same can be passed on to the consumers.

Comfortable financial risk profile and strong liquidity position

The company's financial risk profile is marked by comfortable overall gearing of 0.82x as on March 31, 2021 and gross debt/PBILDT of 1.72x which have improved significantly as compared to 1.24x and 2.54x as on March 31, 2020 respectively at consolidated basis. The interest coverage also improved from 3.71x in FY20 to 5.17x in FY21.

The liquidity position of the company is strong with cash and current investments of around Rs.827 crore as on March 31, 2021 which is expected to remain in the company to meet operational requirements as well as providing adequate buffer to undertake the proposed capex of Rs. 1400 crore (proposed to be funded via D:E of 2.5:1) in UCWL upcoming in the next 2.5 years.

The improvement in financial risk profile of the company during FY20 and FY21 has been mainly driven by strong volume growth and better operational efficiency.

Despite impact of Covid-19 pandemic, the total operating income (TOI) of the company has grown by about 8.5% during FY21, on Year-on-Year (Y-o-Y) basis, mainly driven by sales volume growth of 7.5%. TOI, on consolidate level, has increased to Rs.4,769 crore during FY21 compared to Rs. 4,394 crore achieved during FY20. The sales volume has increased to 11.92 million tonnes (MT) during FY21 as compared to 11.09 MT during FY20. During FY20, TOI marginally increased by 1% despite volume de-growth of 2% due to improvement in sales realization per tonne during FY20 as compared to realization levels of FY19. The sales realizations during FY20 and FY21 has significantly improved as compared to FY19 levels on account of strong demand in the key markets wherein company has strong presence.

The higher realizations and better operational efficiency in terms of fright cost has resulted in robust growth of 77% in PBILDT to Rs.817 crore in FY20 as compared to PBILDT of Rs.462 crore in FY19. Besides, higher volumes during FY21 has led to growth of about 19% in PBILDT to Rs. 971 crore during FY21. The PBILDT margin has improved to 20.36% during FY21 as compared to 18.59% last year. The margin is significantly improved as compared to FY18-FY19 level of 10%-11%.

During Q1FY22 (period from April 01 to June 30), the company reported total income of Rs.1,342 crore with PAT of Rs.136 crore i.e. PAT margin of 10.14%.

Improvement in operational risk profile of Udaipur Cement Works Limited (UCWL)

UCWL started its operation with capacity of 1.6 million tonnes per annum (MTPA) during FY17. This project was funded through debt of Rs.525 crore, promoter contribution of Rs.215 crore and balance through internal accruals. During FY18 and FY19, the company had registered losses owing to initial stabilization phase. However, the operations of UCWL have since stabilized resulting in healthy cash accruals of about Rs. 60 crore and Rs. 90 crore during FY20 and FY21 respectively. The stabilization of operations and improvement in profitability has resulted in positive accretion of UCWL operations at consolidate level.

Key Rating Weaknesses

Project risk attached to proposed capacity augmentation under UCWL

The company recently announced an expansion project for setting up an additional clinker capacity of 1.50 MTPA and a cement grinding capacity of 2.50 MTPA (including WHR plant of 7 MW) at existing location in Udaipur under UCWL. The project is estimated to be set up at a cost of around Rs. 1,400 crore, which is envisaged to be funded at a debt-equity ratio (DER) of 2.5:1 and is expected to be commissioned by FY24-FY25. With a large part of capex planned for the future, the company remains exposed to project execution risk, which would be substantially funded through debt. With significant experience of the promoters and their strong liquidity position, the risks are however, mitigated to an extent.

Despite debt addition on account of capex, the overall gearing is expected to remain below unity as the net debt addition (net of debt repayment) during FY22-FY26 is expected to be marginal and TNW is expected to improve further with plough back of profits.

Exposure to volatility in prices of coal and fuel cost as well as sales realization prices:
JKLC generally procures coal from the open market from domestic and international coal producers. Besides, a significant portion of its fuel requirement is met through pet coke, which is also sourced from domestic as well as international markets. Absence of long-term fuel supply agreements and coal linkages exposes the company to any adverse volatility in the prices of the commodities which has witnessed price inflation during Q4FY21 and FY22 till date. Besides, its realizations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry. The uncertainty of demand situation owing to Covid-19 pandemic also poses a risk.

Liquidity Analysis: Strong
The liquidity position of the company continues to be strong with cash and cash equivalents of Rs.780 crore on consolidated basis as on Aug 31, 2021 (Rs.827.17 crore as on March 31, 2021), which is being maintained in the form of fixed deposits/ mutual funds. Furthermore, the company has unutilized fund-based working capital limit of Rs. 250 crore as on May 2021, which provides additional liquidity cushion.
The company has debt obligation (principal repayment obligation) of about Rs. 377 crore and Rs. 220 crore respectively during FY22 and FY23. The liquidity of the company is sufficient to meet these obligations.

Analytical Approach: Consolidated (consolidation of JKLC and its subsidiaries-UCWL and Hansdeep Industries & Trading Company Limited)

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's Policy on Liquidity analysis for Non-Financial Sector Entity]
[Financial Ratios – Non-Financial Sector]
[Rating Methodology – Short Term Instruments]
[Rating Methodology – Manufacturing Companies]
[Rating Methodology - Cement Industry]
[CARE's Policy on curing period]
[Rating Methodology – Consolidation]

About the Company
JK Lakshmi Cement Limited (JKLC), a part of JK Group (East), 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. JKLC is headed by Mr. Bharat Hari Singhania (Chairman & Managing Director) and is in the business of manufacturing ordinary Portland cement (OPC), blended cement (PPC), ready mix concrete (RMC) and autoclaved aerated concrete (AAC) blocks. JKLC has a cement capacity of 11.70 million tonne per annum (MTPA) on standalone basis. The cement plants of the company are situated in Rajasthan, Gujarat, Haryana, Chhattisgarh and Odisha. Also, JKLC's subsidiary, Udaipur Cement Works Limited (UCWL) has a cement plant of 2.20 MTPA in Rajasthan, which became operational in March 2017.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	4393.73	4,769.56
PBILDT	816.78	971.22
PAT	252.94	421.12
Overall gearing (times)	1.24	0.82
Interest Coverage	3.70	5.17

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Covenants of rated instrument: Detailed explanation of covenants of the rated instruments is given in Annexure-3

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fixed Deposit	-	-	-	100.00	CARE AA (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
2.	Commercial Paper-Commercial Paper (Carved out)	ST	175.00	CARE A1+	1)CARE A1+ (07-Jul-21)	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (06-Sep-19)	1)CARE A1+ (08-Oct-18) 2)CARE A1+ (02-May-18)
3.	Non-fund-based - ST-BG/LC	ST	850.00	CARE A1+	1)CARE A1+ (07-Jul-21)	1)CARE A1+ (04-Sep-20)	1)CARE A1+ (06-Sep-19)	1)CARE A1+ (15-Mar-19) 2)CARE A1+ (08-Oct-18)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)
5.	Term Loan-Long Term	LT	1009.56	CARE AA; Stable	1)CARE AA; Stable (07-Jul-21)	1)CARE AA-; Stable (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)
6.	Fund-based - LT-Cash Credit	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (07-Jul-21)	1)CARE AA-; Stable (04-Sep-20)	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)
7.	Debentures-Non	LT	150.00	CARE	1)CARE AA;	1)CARE AA-;	1)CARE AA-;	1)CARE

	Convertible Debentures			AA; Stable	Stable (07-Jul-21)	Stable (04-Sep-20)	Stable (06-Sep-19)	AA-; Stable (08-Oct-18)
8.	Fixed Deposit	LT	100.00	CARE AA (FD); Stable	1)CARE AA (FD); Stable (07-Jul-21)	1)CARE AA- (FD); Stable (16-Mar-21) 2)CARE AA- (FD); Stable (04-Sep-20)	1)CARE AA- (FD); Stable (06-Sep-19)	1)CARE AA- (FD); Stable (08-Oct-18)
9.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (06-Sep-19)	1)CARE A1+ (08-Oct-18)
10.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (06-Sep-19)	1)CARE A1+ (08-Oct-18)
11.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (07-Jul-21)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
Financial Covenants	
Testing of Financial covenants	Following financial covenants are to be tested on an annual basis based on standalone audited financials from March 31, 2022 onwards: • Minimum interest coverage ratio of 2.40 • Minimum DSCR not to fall below 1.20 • Fixed assets coverage ratio not to fall below 1.30 Non- compliance with any of the above covenants will be treated as a breach. Penalty for breach of financial covenants (will be applicable as per undernoted terms: a. Breach up to 10% -Nil b. Deviation of 10% or more will result in penal interest at the rate of 1% p.a. from the date of breach till it is cured
Non-financial Covenants	-

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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