J.K. Cement Limited (Revised)

February 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	100.00	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the instrument of J.K. Cement Limited (JKCL) factors in its established presence in the grey cement segment across diversified geographical markets as well as its dominant position and strong brand image in white cement and wall putty segments, thereby ensuring a diversified product mix, providing healthy margins. The ratings also consider the extensive experience of the promoters in the cement business, comfortable financial risk profile and strong liquidity position. Furthermore, CARE Ratings Limited (CARE Ratings) notes that JKCL has completed its ongoing capex project in its subsidiary JaykayCem (Central) Limited in Q3FY23 and is going to get the benefit of enhanced volumes from Q4FY23.

The rating is, however, constrained by project risk attached to further capacity augmentation, cyclicality associated with the cement industry, exposure to volatility in the input costs, dependence of the demand of cement on the construction activity and infrastructure spends in the economy and weak financial profile of its subsidiary, J.K Cement Works Fujairah (JKCWF, rated 'CARE AA+ (CE); Stable').

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in leverage levels, going forward, with overall gearing on consolidated basis below 0.5x and net debt to PBILDT levels below 1x on a sustained basis.
- Increase in the scale of operations leading to leadership position in the regions in which the company operates.

Negative factors

- Any significant deterioration in the profitability or liquidity position of the company on a sustained basis.
- Any significant weakening of the capital structure with overall gearing increasing above 1x and net debt/PBILDT of above 2.5x on a sustained basis.
- Structural changes in the industry, impacting the profitability of the company.
- Delay in the commissioning or delay in volume ramp-up of the new project being undertaken.

Analytical approach: Consolidated (Consolidation of J.K. Cement Limited and its subsidiaries owing to strong operational and strategic linkages between the parent and the subsidiaries being in the same line of business, same brands and common management and control). The subsidiaries being consolidated are as under:

Name of companies/ Entities	Subsidiary/Joint Venture/Associate	% of holding
JK Cement (Fujairah) Works FZC	Subsidiary	100%
Jaykaycem (Central) Ltd	Subsidiary	100%
J.K. Cement(Fujairah) FZC	Step-down Subsidiary	90%
J.K. White Cement (Africa) Ltd	Step-down Subsidiary	90%
J.K. Paints & Coatings Limited	Subsidiary	100%
Acro Paints Limited	Step – down Subsidiary	60%

Outlook: Stable

Stable outlook assigned to JKCL reflects is likelihood to maintain its strong market position which coupled with favourable demand scenario shall enable it to sustain healthy operational and financial performance over the medium term.

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

Key strengths

Strong market position with growing diversification in the grey cement segment and dominant position in the white cement and wall putty segments:
The company has strong presence in the northern region and is amongst the top five cement manufacturers in the region, with Rajasthan, Haryana, Punjab and Delhi contributing more than 40% of the total sales of the company. The company also has presence in the western region in Gujarat and Maharashtra as well as in the southern region, in which Karnataka is a key market for the company. Furthermore, the company completed its greenfield expansion capex aggregating to 4 million tonnes per annum (MTPA) integrated plant in the central region in November 2022 through its wholly-owned subsidiary, Jaykaycem (Central), resulting in increase in the company's presence in the central region and expected to drive its business growth going forward. JKCL is one of the leading white cement manufacturers in India with an installed capacity of 1.48 MTPA. The company also produces wall putty, a value-added product of white cement, with an overall capacity of 1.33 MTPA. The white cement segment is characterised by a small industry with significant entry barriers, and consequently a duopoly structure as of now, which ensures healthy operating margins for the manufacturers. Moreover, a consistent growth in the white cement and wall putty segments has created a steady cash flow stream for JKCL, contributing significantly towards its PBILDT over the years, which also provides a cushion against volatility in the grey cement segment. Going forward, the company is expected to maintain its leadership position despite the competition that might arise from the paint manufacturers, especially in the putty segment.

Strong operational and financial performance driven by robust volume growth and realisation improvement during FY22 with capacity expansion to drive growth: The company has reported a total operating income (TOI) of about ₹7,900 crore during FY22 (refers to the period April 1 to March 31) on a consolidated basis achieving year-on-year growth of around 20%, driven by volume growth and realisation improvement. The overall sales volume of the company (including white cement and wall-putty segment) has achieved a robust growth of 17% during FY22 to 13.61 MTPA as against the sales volume of 11.63 MTPA achieved during FY21. The increase in the volume was on account of accretion of volumes from the additional capacity commissioned during the fiscal, which catered to the pent-up demand post relaxing of the pandemic-related restrictions. The utilisation level of the capacities stood at around 80%, which is higher than the industry level for FY22.
JKCL, through its wholly-owned subsidiary, Jaykaycem (Central), has set up a 4-MTPA integrated greenfield grey cement capacity, which will cater to the markets of Madhya Pradesh and Uttar Pradesh. This expansion will make JKCL a leading player in the highly-consolidated and rural demand-driven Central market, increase its revenue diversification and fuel its future growth. Although the PBILDT margin decreased, it remained comfortable at 18.03% in FY22 (PY: 23.33%) owing to increase in the prices of coal, petcoke, and diesel, which caused power and fuel as well as the freight costs to increase substantially. PBILDT per tonne decreased to ₹1,047 per tonne in FY22 from ₹1,314 per tonne in FY21 as a result of the high input cost, which the industry has been witnessing amid commodity inflation, muted realisations, a change in the product mix (higher grey cement), an increase in the employee costs and advertising overheads. With fuel prices remaining high, CARE Ratings Limited (CARE Ratings) expects a continued year-on-year moderation in the PBILDT per tonne in the near term. The power and fuel cost per tonne and the freight cost per tonne increased by 21% and 9%, respectively, to ₹1,214 and ₹1,215 on per tonne basis. The PBILDT, profit after tax (PAT), and gross cash accruals (GCA) of the company for FY22 stood at ₹1,424 crore, ₹679 crore, and ₹1,113 crore, respectively (PY: ₹1,528 crore, ₹703 crore, and ₹1,069 crore, respectively).
9MFY23 performance: The TOI reported by JKCL in 9MFY23 was ₹6,991 crore as against ₹5,740 crore in 9MFY22. The PBILDT margin moderated to 14.51% as against 20.89% in 9MFY22.

Comfortable financial risk profile and strong liquidity position: The company's financial risk profile is marked by comfortable overall gearing of 1.06x as on March 31, 2022 (PY: 1.09x) and gross debt/PBILDT of 3.17x (PY: 2.60x) at a consolidated basis. The interest coverage moderated to 5.3x from 6.0x on account of the decline in profitability. Over the span of last 4-5 years, the overall gearing of the company has improved significantly from the level of 1.51x as on March 31, 2018. This improvement has been achieved despite capacity addition of 4.2 MTPA undertaken during FY19-FY21, which has strengthened the business profile of the company without moderation in the gearing level.
Moreover, over these years, the company has generated and is maintaining a strong liquidity position with cash and current investments of around ₹1,255 crore as on December 01, 2022. The liquidity is expected to remain strong, meeting operational requirements as well as providing adequate buffer to undertake the capex.
The 4 MTPA capex in Panna & Hamirpur has achieved the commercial operations date (COD) ahead of its original schedule (March 2023). The total project cost for Panna & Hamirpur was ₹2,970 crore (debt of ₹1,680 crore and internal accruals of ₹1,290 crore) out of which the group has incurred around ₹2,700 crore till December 2022 funded out of term loan (TL) of around ₹1,455 crore and ₹1,245 crore through internal accruals over FY22 and FY23.

Experienced promoters and strong brand image: The promoters of JKCL have extensive experience in the business of cement manufacturing and marketing. JKCL also has an experienced and qualified management team, which has facilitated the company's growth over two decades. The company has a diversified presence in the grey cement segment across the northern, western, central and southern markets of India, covering over 19 states. It has established brands like 'JK Super Cement' and 'JK Super Strong Cement'. Besides, the company has a pan-India presence in the white cement and wall putty segments, which are sold under brand names, 'JK Cement White MaxX' and 'JK Cement Wall MaxX', respectively.

Foray into paint business: The group has ventured into decorative paint business through the 60% controlling stake acquisition of Acro Paints Limited at a value of ₹153 crore and is expected to acquire the balance stake by FY24. The total cash outlay for this segment is expected to be around ₹300 crore funded entirely through internal accruals which would be utilized for acquiring the balance stake as well as to undertake certain capex. As confirmed by the management, the total investment into this business would not increase beyond ₹600 crore over the next five years as per the management mandate.

Completion of ongoing capex: JKCL is setting up an integrated greenfield capacity aggregating to 4 MTPA in JKCL's wholly-owned subsidiary - JaykayCem (Central) Limited. JKCL has commissioned its 2mtpa each GU in Panna & Hamirpur on November 2, 2022 and November 25, 2022 respectively. The additional capacity is expected to benefit the company to strengthen its market presence in Uttar Pradesh and Madhya Pradesh as well as lead to freight cost savings. The capex has achieved COD ahead of its original schedule (March 2023). Total project cost for Panna & Hamirpur was ₹2,970 crore (debt of ₹ 1,680 crore and internal accruals of ₹1,290 crore) out of which the group has incurred around ₹2,700 crore till December 2022 funded out of TL of around ₹1,455 crore and ₹1,245 crore through internal accruals over FY22 and FY23.

Industry outlook CARE Ratings expects the industry to move at a high single-digit growth on account of the government thrust for infrastructure and strong traction in the capital expenditure. Various initiatives by the government along with several micro, small and medium enterprises (MSME) schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure will create some stress on the profitability of cement companies. The resultant price hikes by cement producers in H2FY23 and sustenance of those are key monitorable. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

Key weaknesses

Project risk attached to proposed capacity augmentation: Besides 4MTPA completed expansion, the board of JKCL has approved 5.5mtpa expansion (0.5mtpa each at existing locations at 1. Mangrol, Rajsthan 2. Jharli, Haryana 3. Aligarh, UP. 4. Muddapur, Karnataka through debottlenecking + 1.5mtpa new split GU at Ujjain (in JK Cement), MP + 2mtpa new split GU at Prayagraj, UP (in Jaykaycem (Central) Ltd.) grey cement GU expansion and 0.66mtpa clinker expansion at Panna, MP. The new expansions will be funded in debt/equity mix of 1.66:1. The overall cement capacity of 5.5 MTPA would be implemented in a phased manner in the next two years with a total capital cost of ₹1,161 crore. (US$26 per tonne). The debt is likely to peak in FY24-end and thereafter reduce. With this, its grey cement capacity to increase from 14.67mtpa (FY22) to 18.67mtpa (December 2022)/ 20.67mtpa (March 2023)/ 22.17mtpa (March 2024)/ 24.17mtpa (September 2024).
With significant experience of the promoters and their strong liquidity position, the risks are, however, mitigated to an extent. Nevertheless, any cost and time outrun is a key monitorable going forward. Furthermore, with this, JKCL shall be a leading player in the rural demand-driven central market and also will be able to increase its revenue diversification. Despite debt addition on account of capex, the overall gearing is expected to remain around unity, as the net debt addition (net of debt repayment) during FY23-FY25 is not expected to be significantly higher and the tangible net worth is expected to improve further with plough back of profits. These metrics however remain key monitorable going forward.

JKCWF's weak operating performance and financial risk profile: JKCL, under its step-down subsidiary, JKCWF, had established a greenfield dual process cement plant in September 2014 at Fujairah, UAE, having an installed capacity of 0.6 MTPA of white cement or 1 MTPA of grey cement. JKCWF has reported net loss since the commencement of operations (net loss of Arab Emirate Dirhams (AED) 39.08 million and AED 34.13 million in CY21 and CY20, respectively). The operating levels have remained relatively low due to weak demand in the Gulf countries on account of subdued construction activity and high freight costs. Given the sub-optimal size of its facility, JKCWF has remained dependent on infusion of funds from JKCL for meeting its debt obligations in the near term. However, owing to abundant liquidity position, JKCL has prepaid the entire outstanding term debt of JKCWF in the last quarter of CY22.

Exposure to volatility in prices of coal and fuel cost as well as sales realisation prices: While JKCL has fuel supply agreements (FSA) to meet part of the coal requirement, it has a significant dependence on petroleum coke (sourced from domestic markets) and imported coal, thereby exposing the company to any adverse volatility in the prices of the commodities, which has witnessed price inflation in the recent past. Additionally, the company is meeting part of its fuel requirement through imports, which also exposes it to the risk of any adverse fluctuation in the exchange rates. Besides, its realisations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry. The availability of captive limestone mines at strategic locations mitigates the risk of cost inflation to some extent.

Liquidity: Strong

The liquidity position of the company continues to be strong with cash and liquid investments of ₹1,255 crore as on December 01, 2022. The average utilisation of fund-based working capital limits was comfortable at around 45% for 12 months ending June 30, 2022. As articulated by the management, the company would maintain free cash balances in the range of about ₹700-800 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 around ₹535 crore and ₹409 crore in FY23 and FY24, respectively, on a consolidated basis vis-à-vis GCA of ₹1,113 crore in FY22.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cement
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

JKCL (CIN No: L17229UP1994PLC017199), a part of the JK group (North), was incorporated in November 1994. JKCL has an installed capacity of 14.67 MTPA. It is also one of the leading white cement manufacturers with installed capacity of 1.48 MTPA and also has presence in wall putty segment with installed capacity of 1.33 MTPA. The company's grey cement plants are located at Nimbahera, Mangrol and Gotan in Rajasthan (aggregating 7.97 MTPA), Jhajjar in Haryana (1.50 MTPA capacity including split grinding unit at Jhajjar, commissioned in FY15), Muddarpur in Karnataka (3.0 MTPA), Aligarh in Uttar Pradesh (1.50 MTPA including spilt grinding unit) and Balasinor in Gujarat (0.7 MTPA, recently commissioned on October 8, 2020). The company's white cement plant, having a capacity of 0.88 MTPA is located at Gotan. The wall putty plant of 0.63 MTPA is located at Gotan and 0.7 MTPA at Katni, Madhya Pradesh (including additional 0.3 MTPA capacity commissioned in Katni in October 2020). JKCL, under its step-down subsidiary, J.K Cement Works (Fujairah), FZC UAE, has a dual process cement plant having interchangeable capacity of 0.6 MTPA of white cement or 1 MTPA of grey cement.

Brief Financials (₹ crore)*	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	6549.46	7902.42	6991.76
PBILDT	1527.9	1424.45	1014.2
PAT	703.1	679.21	308.99
Overall gearing (times)	1.09	1.06	NA
Interest coverage (times)	6.04	5.28	4.81

A: Audited; UA: Unaudited; NA: Not Available
*Consolidated Financials

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various 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 along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	100.00	CARE AA+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	375.00	CARE AA+; Stable	1)CARE AA+; Stable (01-Aug-22)	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
2	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	1)CARE A1+ (01-Aug-22)	1)CARE A1+ (07-Dec-21) 2)CARE A1+ (03-Aug-21)	1)CARE A1+ (15-Dec-20)	1)CARE A1+ (16-Dec-19)
3	Non-fund-based - ST-BG/LC	ST	625.00	CARE A1+	1)CARE A1+ (01-Aug-22)	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (15-Dec-20)	1)CARE A1+ (16-Dec-19)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
5	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)

6	Term Loan-Long Term	LT	2245.01	CARE AA+; Stable	1)CARE AA+; Stable (01-Aug-22)	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
8	Debentures-Non Convertible Debentures	LT	108.00	CARE AA+; Stable	1)CARE AA+; Stable (01-Aug-22)	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
9	Debentures-Non Convertible Debentures	LT	80.00	CARE AA+; Stable	1)CARE AA+; Stable (01-Aug-22)	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20)	1)CARE AA; Stable (16-Dec-19)
10	Debentures-Non Convertible Debentures	LT	250.00	CARE AA+; Stable	1)CARE AA+; Stable (01-Aug-22)	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA; Positive (15-Dec-20) 2)CARE AA; Stable (09-Jul-20) 3)CARE AA; Stable (12-Jun-20)	-
11	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (01-Aug-22)	1)CARE A1+ (25-Jan-22) 2)CARE A1+ (07-Dec-21) 3)CARE A1+ (07-Oct-21)	-	-
12	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Stable				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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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.

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