Udaipur Cement Works Limited (Revised)

September 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non Convertible Debentures	350.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total Long Term Instruments	**350.00 (₹ Three Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating for the long term Instrument of Udaipur Cement Works Limited (UCWL) continue to reflect the strategic importance of UCWL to its parent – JK Lakshmi Cement Ltd (JKLC; rated 'CARE AA; Stable/CARE A1+'), and the strong management, operational and financial linkages it has with JKLC, besides the demonstrated support it has received from its parent entity in the past, which is expected to continue going forward as well. As a subsidiary of JKLC, UCWL has been able to increase the market presence of JKLC in its key market of Northern and Western India. Going forward, the group is undertaking its future expansion plans through UCWL, which will lead to an increased contribution of UCWL in the group. Currently, UCWL contributes about 16% of the cement capacity of the group on a consolidated level, which will increase to 28% post the expansion and this will significantly contribute to the consolidated revenue and profitability of JKLC, going forward. UCWL's presence, hence, will be critical for JKLC in maintaining its market share in its key markets. JKLC is expected to continue to support UCWL through equity infusions and corporate guarantees (CGs) for its upcoming capex plans.

The ratings further consider UCWL's sustained turnaround in the operating and financial performance in the past few years. Post the recent debottlenecking exercise and the proposed expansion (which is expected to be commissioned by FY25), the overall capacity of UCWL (standalone) will be 4.7 million tonne per annum (MTPA). The sustenance in the healthy operational performance, along with the proposed equity infusion of approximately ₹400 crore, is expected to lead to an enhanced net worth base for UCWL (standalone) by FY23-end, with an overall gearing of around 1.50x.

The ratings are, however, constrained by project risks associated with the proposed capacity augmentation plan, cyclicality associated with the cement industry, and exposure to volatility in input costs. The ratings have been assessed at a standalone level. UCWL remains a strategically important subsidiary of JKLC, with strong management, operational and financial integration with the parent.

Key rating sensitivities

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in the credit profile of JKLC (parent).
- Improvement in the credit profile of UCWL such that the total operating income (TOI) increases beyond ₹1,000 crore and the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin beyond 20% on a sustained basis.
- Increase in capacities, leading to an improved market share in the regions of operation, and significant improvement in UCWL's operating and financial performance.

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in the credit profile of JKLC.
- Material change in the shareholding of JKLC or the financial and operational support philosophy of the parent towards UCWL.
- Substantial decline in sales volume, resulting in lower capacity utilisation of plants and decline in the TOI on a sustained basis.
- Significant time and cost overruns in the planned expansion in UCWL.

Detailed description of key rating drivers

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

Key rating strengths

Strategic importance and strong operational linkages with parent: In FY22 (refer to period from April 01 to March 31), UCWL's revenue and earnings before interest, taxes, depreciation and amortisation (EBITDA) contributed 17% (FY21: 15%; FY20: 16%; FY19: 13%) and 18% (FY21: 15%, FY20: 15%, FY19: 9%), respectively, to JKLC's consolidated revenue and EBITDA. As a subsidiary of JKLC, UCWL has been able to increase the market presence of JKLC in its key market of Northern and Western India. Overall, UCWL has about 16% of the cement capacity of JKLC on a consolidated level and post the expansion that the parent has planned in UCWL, this will increase to 28%, and will significantly contribute to the consolidated revenue and profitability of JKLC, going forward (meaningfully from FY25). Operationally, as well, UCWL is well-integrated with JKLC, with raw materials procurement, production, marketing, and finance functions being centrally managed. The sourcing of major raw materials such as pet coke, coal and fly-ash is done at the group level, thus benefiting UCWL from JKLC's scale of operations. JKLC holds a 72.54% of UCWL and two directors on the company's board are from the parent's board, including the Chairman position, which is held by JKLC's Vice Chairman and Managing Director. JKLC will also support UCWL through equity infusions for the upcoming project. JKLC has also extended a CG for the entire outstanding debt of UCWL (except loans under the Emergency Credit Line Guarantee Scheme (ECLGS)) and intends to extend the same for future borrowing as well. CARE Ratings Limited (CARE Ratings) believes UCWL will remain strategically and operationally integral to JKLC.

Sustained improvement in the operational and financial risk profiles: UCWL commenced its operations with a capacity of 1.6 MTPA during FY17. This project was funded through debt of ₹525 crore, promoter contribution of ₹215 crore, and the balance through internal accruals. During FY18 and FY19, the company had registered losses owing to the initial stabilisation phase. However, the company has registered a y-o-y growth of 18%, 7%, and 21% in its TOI during FY20, FY21, and FY22, respectively, on account of the growth in sales volume and realisation. The present capacity of cement grinding is 2.2 MTPA.

Furthermore, the company has achieved a 21% growth in TOI during FY22 to ₹879 crore as against a TOI of ₹726 crore during FY21. The sales realisation remained strong during FY22, in line with the higher realisation achieved during FY21 (level ₹3,900 per tonne on a blended basis, as against ₹3,760 per tonne in the previous year).

The high input costs have resulted in a de-growth in the PBILDT margin to 16.91% during FY22, as against 19.25% during FY21. Power & fuel costs and freight cost have increased as compared to the previous year.

The profit-after-tax (PAT) stood at ₹49 crore in FY22 as compared to a PAT of ₹55 crore achieved during FY21, thereby the PAT margin declining to 5.53% as against 7.57% in the previous year.

The company has generated gross cash accruals (GCA) of about ₹60 crore, ₹90 crore and ₹100 crore during FY20, FY21 and FY22, respectively. The stabilisation of operations and improvement in profitability has resulted in positive accretion of UCWL's operations at a consolidated level. The overall gearing deteriorated on account of additional NCDs availed for meeting capex requirements during FY22. The same stood at 4.29x (PY: 3.33x as on March 31, 2021). The interest coverage improved during FY22 to 2.96x from 2.60x, due to the slightly lower interest cost (mainly on account of the lower processing fees in FY22).

The total debt/GCA has moderated to 10.19x during FY22, from 6.93x during FY21. The total debt/PBILDT has also moderated at 6.85x, as against the said ratio of 4.49x as on March 31, 2021, mainly due to the modest profitability during the year owing to cost pressures, which has been an industry-wide phenomena. However, going forward, the group is undertaking its expansion plans through UCWL. Therefore, the scale of operations will increase going forward and have a favourable impact on its credit profile. Post the recent debottlenecking exercise, the cement capacity increased by 0.6 MT to 2.2 MT and post the proposed expansion of 2.5 MTPA, which is expected to be commissioned by FY25, the overall capacity of UCWL (standalone) will be 4.7 MTPA. The expansion will be funded through a mix of debt and equity. While the capital structure will be moderate, owing to the drawdown of debt to fund the brownfield capex, however, going forward, the continued improvement in the operations along with the proposed equity infusion of approximately ₹400 crore in FY23, is expected to lead to a comparatively better net worth base for UCWL (standalone), which is expected to be over ₹675 crore by FY23-end (lower from earlier projected levels owing to prolonged and unabated cost pressures without commensurate price hikes). This is expected to lead to an overall gearing (gross) level of around 1.50x by FY23-end. Post the commissioning of the enhanced facilities, the contribution of UCWL to the consolidated revenue and profitability will also increase to approximately to 25-30%.

Key rating weaknesses

Project risk attached to proposed capacity augmentation: The company is implementing an expansion project for setting up an additional clinker capacity of 1.50 MTPA and a cement grinding capacity of 2.50 MTPA (including a waste heat recovery (WHR) plant of 10-MW) at the existing location in Udaipur. The project is estimated to be set up at around ₹1,650 crore, which is envisaged to be funded by debt of ₹1,100 crore, ₹400 crore through equity, and the balance ₹150 crore from internal accruals and cash. The project is expected to be commissioned by FY24-FY25. With a large capex planned for the future, the company remains exposed to project execution risk, which will be substantially funded through debt. With significant experience of the promoters and their strong liquidity position, the risks are, however, mitigated to an extent.

Exposure to volatility in the prices of coal and fuel as well as sales realisation prices: The company is exposed to any adverse volatility in the prices of commodities, which has witnessed price inflation during FY22 and FY23 till date. Besides, its realisations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry.

Industry outlook: Growth in India's cement sector has seen a strong bounce back in FY22. The year closed with a growth of 20%, reaching an all-time high, after witnessing a decline of 11% in FY21. The jump was on account of the government's infrastructure push via various schemes and allocations towards the creation of hard assets and a low base effect. Growth trend continues in production FY21 created a low base primarily because of the COVID-19 pandemic. This, coupled with pent-up demand, has led to the reversal in the muted trend in volumes. The 20% production growth in FY22 was driven by the strong recovery witnessed during H1FY22, which saw a y-o-y growth of 36%. Owing to strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to see an upswing in demand in FY23. CARE Ratings believes the industry is likely to move at high single-digit growth on account of government thrust for infrastructure and strong traction in capital expenditure. Various initiatives by the government along with several micro, small & 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 could create some stress on the profitability of cement companies. Resultant price hikes by cement producers will become evident and might sustain in the near term. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

Liquidity: Strong

The liquidity of UCWL derives strength from the overall liquidity of JKLC. Cash accruals stood at ₹100 crore in FY22, as against ₹47 crore of long-term debt repayment obligations. Cash and liquidity stood at ₹321 crore as on March 31, 2022 (created out of availment of non-convertible debenture (NCD) proceeds of ₹350 crore as on March 31, 2022) with minimal utilisation of the fund-based working capital facility (sanctioned limit of ₹30 crore). The parent is undertaking a capex of around ₹1,650 crore over FY22-25 in UCWL, expected to be financed through debt of ₹1,100 crore, equity infusion from JKLC, and internal accruals. Bank lines are expected to comfortably meet the incremental working capital requirements. The repayment obligation for FY23 and FY24 stand at ₹53.17 crore and ₹62.78 crore in UCWL.
Furthermore, the working capital lines are available, which provides an additional liquidity cushion and coal inventory till February/March 2023 is in stock.

Analytical approach: Standalone

The ratings have been assessed at a standalone level. UCWL remains a strategically important subsidiary of JKLC, with strong management, operational, and financial integrations with the parent.

Applicable criteria

Policy on default recognition
HYPERLINK "https://www.careratings.com/upload/NewsFiles/GetRated/Consolidation_2-Feb-22 (21-6-22).pdf" \o "Applicable Criteria3"Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cement
Manufacturing Companies

About the company

UCWL (CIN: L26943RJ1993PLC007267) is a subsidiary of JKLC. During FY14, UCWL became a subsidiary (associate company in the previous year) of JKLC, with an increase in JKLC's equity shareholding. UCWL has set up a 1.60-MTPA cement capacity in Udaipur, which commenced commercial operations in March 2017 (a grinding unit of 0.65 MTPA was commissioned earlier) with a total capital outlay of Rs.815 Crore which was funded through debt of Rs.525 crore, promoter contribution of Rs.215 crore and balance through internal accruals. UCWL completed de-bottlenecking and expanded its clinker capacity by 0.3 MT to 1.5 MT, and cement by 0.6 MT to 2.2 MT.

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

Brief Financials (₹ crore; UCWL – Standalone)	FY21 (A)	FY22 (A)	Q1FY23(UA)
TOI	726	879	278
PBILDT	140	149	40
PAT	55	49	14
Overall gearing (times)	3.33	4.29	NA
Interest coverage (times)	2.60	2.96	3.29

A: Audited; UA: Unaudited Prov: Provisional; NA: Not available.

Brief Financials (₹ crore; JKLC – Consolidated)	FY21 (A)	FY22 (Prov)	Q1FY23 (Prov)
TOI	4,777	5,468	1,661
(UAPBILDT	988	999	264
PAT	421	478	115
Overall gearing (times)	0.88	0.78	NA
Interest coverage (times)	5.15	7.03	7.36

A: Audited; Prov: Provisional; NA: Not available.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of the various instruments rated for this company: Annexure-4

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)		-	7.45	16/03/2025	350.00	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	30.00	CARE AA; Stable	1)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22)	1)CARE AA- (CE); Stable (04-Sep-20)	1)CARE AA- (CE); Stable (12-Sep-19)

						3)CARE AA (CE); Stable (07-Jul-21)	2)CARE AA- (CE); Stable (29-May-20)	
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	20.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA; Stable / CARE A1+ (14-Mar-22) 2)CARE AA; Stable / CARE A1+ (24-Jan-22) 3)CARE AA (CE); Stable / CARE A1+ (CE) (07-Jul-21)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (04-Sep-20) 2)CARE AA- (CE); Stable / CARE A1+ (CE) (29-May-20)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (12-Sep-19)
3	Fund-based - LT-Term Loan	LT	938.92	CARE AA; Stable	1)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22) 3)CARE AA (CE); Stable (07-Jul-21)	1)CARE AA- (CE); Stable (04-Sep-20) 2)CARE AA- (CE); Stable (29-May-20)	1)CARE AA- (CE); Stable (12-Sep-19)
4	Fund-based - LT-Term Loan	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22) 3)CARE AA (CE); Stable (07-Jul-21)	1)CARE AA- (CE); Stable (04-Sep-20) 2)CARE AA- (CE); Stable (29-May-20)	1)CARE AA- (CE); Stable (11-Oct-19) 2)Provisional CARE AA- (CE); Stable (12-Sep-19)
5	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	1)Withdrawn (24-Jan-22) 2)CARE BBB+ / CARE A3+ (07-Jul-21)	1)CARE BBB+ / CARE A3+ (04-Sep-20) 2)CARE BBB- / CARE A3 (29-May-20)	1)CARE BBB-; Stable / CARE A3 (11-Oct-19)
6	Fund-based - LT-Working capital Term Loan	LT	42.45	CARE AA; Stable	1)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (14-Mar-22) 2)CARE AA; Stable (24-Jan-22) 3)CARE BBB+; Stable (07-Jul-21)	-	-

7	LT/ST Instrument-NCD/CP	LT/ST*	350.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA; Stable / CARE A1+ (14-Mar-22)	-	-
8	Debentures-Non Convertible Debentures	LT	350.00	CARE AA; Stable				

*Long term/Short term.

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

Particulars	Instrument(s)
Type of Instrument	NCD
Size of the issue	350.00
Coupon	The Coupon shall be floating rate linked to an External Benchmark of 3M MIBOR + spread, payable annually. The initial coupon on the Deemed Date of Allotment is 7.45% p.a.
Coupon Step up	Spread step up by 25 bps for each notch downgrade in Ratings
Coupon Payment dates	Annually from the date of allotment & 16th March 2025
Tenor, Repayment terms & Maturity	2.5 year from the Deemed Date of Allotment (in any case final redemption date to be no later than 16th March 2025) Bullet Repayment
Other Terms (Call and put)	1st March 2024
Purpose	Refinancing of Existing External Unlisted NCDs
Mode of Issue	Private
Amount of listed NCDs o/s as on Sep 20, 2022	Not placed
YTM (at last traded price if applicable)	-
Financial and non-financial covenants	Customary covenants for financing of this nature including but not limited to: • JKLC consolidated Total Debt / EBDITA not to exceed 3.0x at any time, • JKLC consolidated Total Debt / Tangible Net Worth Ratio shall not exceed 1.0x at any time, • JKLC consolidated Debt Service Coverage Ratio shall amount to at least 1.25x at any time, • Issuer's minimum FACR of 1.25x; • No change in ownership and management control of the Parent & Issuer Mandatory Prepayment – The Issuer shall prepay the Debentures upon occurrence of the following events (subject to the agreed carve outs): • Illegality; • Change of control, nature of business, corporate actions like merger, demerger, amalgamation, or any other corporate actions of similar nature without prior written consent of the Debenture Trustee; • Downgrade in external long term credit rating of Issuer/Parent beyond 2 notches; • Material asset or share disposal; • equity issuance at Issuer level, except in case of rights issue/equity infusion for the proposed capex plan; • Others, to be finalized during Transaction Documentation.

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Cash credit	Simple
2.	Fund-based - LT-Term loan	Simple
3.	Fund-based - LT-Working capital term loan	Simple
4.	LT/ST Instrument-NCD/CP	Simple
5.	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

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

Note on 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:

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