

## JK Lakshmi Cement Limited

March 15, 2019

### Ratings

| Facilities                 | Amount<br>(Rs. crore)                                      | Rating <sup>1</sup>                    | Rating Action     |
|----------------------------|--|--|-------------------|
| Short Term Bank Facilities | 650.00<br>(enhanced from 500.00)                           | <b>CARE A1+</b><br><b>(A One Plus)</b> | <b>Reaffirmed</b> |
| <b>Total</b>               | <b>650.00</b><br><b>(Rs. Six Hundred Fifty crore only)</b> |  |                   |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the short term bank facilities of JK Lakshmi Cement Limited (JKLC) continues to factor in experienced promoters, strong brand image and diversified presence of the company in the northern, western and eastern Indian markets, comfortable liquidity position, strong operating efficiencies of the company in terms of raw material and power consumption parameters and its consistent track record in achieving better volume growth than industry. The rating is, however, tempered by weak financial performance of the company in FY18 and 9MFY19, relatively moderate solvency profile, volatile input costs and cyclical nature associated with the cement industry.

Going forward, achievement of envisaged sales realization and volume growth, improvement in profitability in light of volatile input costs and realizations and any higher than anticipated capex shall be key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters and strong brand image:** The promoters of JKLC have extensive experience in the business of cement manufacturing. JKLC has a strong presence, especially in northern & western markets of India under the brand name 'JK Lakshmi Cement' in addition to its presence in the eastern Indian market.

**Diversified market presence:** The Durg plant which was commissioned in March 2015 has reached healthy capacity utilization. Thus, the company's expanded footprint spans the Northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), Western (Gujarat, Maharashtra) and Eastern regions (majority sales from Chhattisgarh; rest from Odisha, Bihar & West Bengal).

The company also commissioned the split grinding unit at Surat in 2016, which is catering to incremental demand emanating from the western market. The company has completed the capacity enhancement at Durg in March 2017 (from 1.8 mtpa to 2.7 mtpa). Also, in 2017, Waste Heat Recovery Plant (WHRP) of 7 MW at Durg and the integrated cement plant of 1.6 mtpa under Udaipur Cement Works Ltd (UCWL), a subsidiary of JKLC, was commissioned.

**Consistent track record of achieving better than industry volume growth:** The company continues to achieve better than industry volume growth and during FY18, the company achieved a growth of around 6.92% on standalone basis and 8.17% on a consolidated basis in cement volumes as against 6.30% growth in the industry. Further, during 9MFY19, the company has achieved volume growth of around 6.85% on standalone basis and 11.43% on consolidated basis as compared to 9MFY18. The average capacity utilization levels stood at 79% for 9MFY19, marginally higher than 76.3% for 9MFY18.

**Comfortable liquidity profile:** The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of around Rs.509 crore as on February 28, 2019. The average utilization of fund-based working capital limits stood at around 85% for the 12-month period ended January 2019.

**Outlook on cement industry:** Given the inherently cyclical nature of the cement industry, the company remains exposed to risks associated with the same. However, higher outlay and focus on infrastructure, housing and rural development are likely to boost the cement demand in the long-term, which in turn will benefit the companies in the sector.

#### Key Rating Weaknesses

**Weak financial performance in FY18 and 9MFY19:** During FY18, at a consolidated level, JKLC reported an increase in total operating income by 28.21% from Rs.2916.20 crore in FY17 to Rs.3738.94 crore in FY18. Apart from the volume growth, commencement of operations in UCWL from March 2017 onwards contributed to the increase in the total operating income

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

on consolidated basis. However, the net profit on consolidated level, declined by 50.31% from Rs.87.26 crore in FY17 to Rs.43.36 crore in FY18 due to losses reported by UCWL as it was the first year of operations for them, and also due to high power and fuel cost. Also, GCA declined by 17.32% in FY18 from Rs.254.56 crore in FY17 to Rs.210.48 crore in FY18.

Further, in 9MFY19 standalone, the company reported increase in total operating income by 3.41%, however, the company has reported a decline of 27.55% and 8.18% in PAT and GCA respectively on Y-o-Y basis. The total operating income, PAT and GCA for 9MFY19 stood at Rs.2,749.54 crore (Rs.2,658.97 crore in 9MFY18), Rs.36.31 crore (Rs.50.12 crore in 9MFY18) and Rs.168.56 crore (Rs.183.57 crore in 9MFY18) respectively. The decline in PAT on Y-o-Y basis was due to decline in sales realizations coupled with high power & fuel costs and high freight costs.

**Moderate solvency position:** At a consolidated level, overall gearing ratio of the company has decreased from 2.00x as on March 31, 2017 to 1.86x as on March 31, 2018 and also net gearing ratio (net of cash and cash equivalents) stood at 1.51x as on March 31, 2018 (as compared to 1.61x as on March 31, 2017). While there has been a marginal improvement in gearing, it remains relatively high. Also, the total debt to Gross Cash Accruals (GCA) ratio remains high at 12.10x as on March 31, 2018 (10.55x as on March 31, 2017) at a consolidated level. Going forward, no major capex is envisaged and with repayment of existing debt obligations, the debt levels are expected to come down.

**Exposure to volatility in prices of coal and fuel cost:** The company generally procures coal from open market from domestic and international coal producers. Also, a significant portion of its fuel requirement (around 69%) is met through pet coke, which is sourced from both domestic and international producers. Absence of long-term fuel supply agreements and coal linkages; exposes the company to adverse volatility in the prices of these commodities.

**Analytical Approach:** Consolidated

#### Applicable Criteria

[CARE's criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for Cement Industry](#)

[CARE's methodology for Manufacturing Companies](#)

[Rating Methodology for Factoring Linkages in Ratings](#)

[Financial Ratios – Non-Financial Sector](#)

#### About the Company

JK Lakshmi Cement Ltd. (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 10.90 million tonne per annum (MTPA) and power capacity of 81 MW at standalone level and is one of the leading cement players in the northern and western region of India. The cement plants of the company are situated in Rajasthan, Gujarat, Haryana and Chhattisgarh. Also, JKLC's subsidiary, Udaipur Cement Works Ltd (UCWL, rated CARE AA- (SO); Stable/ CARE A1+(SO)) has a cement plant of 1.60 MTPA in Rajasthan, which became operational in Mar-17.

| Brief Financials (Consolidated) (Rs. crore) | FY17 (A) | FY18 (A) |
|---|----------|----------|
| Total operating income                      | 2,979.46 | 3,756.22 |
| PBILDT                                      | 426.21   | 434.18   |
| PAT   | 87.26    | 43.36    |
| Overall gearing (times)                     | 2.00     | 1.86     |
| Interest coverage (times)                   | 1.74     | 1.65     |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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 |
|---------------------------|------------------|-------------|---------------|-------------------------------|---|
| Non-fund-based - ST-BG/LC | -                | -           | -             | 650.00                        | CARE A1+                                  |

**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 2018-2019        | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017        | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Debentures-Non Convertible Debentures  | -               | -                              | -        | -  | -   | -  | -   |
| 2.      | Commercial Paper                       | ST              | 175.00                         | CARE A1+ | 1)CARE A1+ (08-Oct-18)<br>2)CARE A1+ (02-May-18) | 1)CARE A1+ (26-Dec-17)                    | 1)CARE A1+ (30-Dec-16)<br>2)CARE A1+ (19-Oct-16) | 1)CARE A1+ (26-Oct-15)                    |
| 3.      | Non-fund-based - ST-BG/LC              | ST              | 650.00                         | CARE A1+ | 1)CARE A1+ (08-Oct-18)                           | 1)CARE A1+ (26-Dec-17)                    | 1)CARE A1+ (30-Dec-16)                           | 1)CARE A1+ (26-Oct-15)                    |

|     |                                       |    |         |                      |                                       |   |  |  |
|-----|---------------------------------------|----|---------|----------------------|---------------------------------------|---|--|--|
|     |                                       |    |         |                      |                                       |   | 2)CARE A1+<br>(19-Oct-16)  |  |
| 4.  | Debentures-Non Convertible Debentures | LT | 73.19   | CARE AA-; Stable     | 1)CARE AA-; Stable<br>(08-Oct-18)     | 1)CARE AA; Stable<br>(26-Dec-17)  | 1)CARE AA; Stable<br>(30-Dec-16)<br>2)CARE AA<br>(19-Oct-16)           | 1)CARE AA<br>(26-Oct-15)                               |
| 5.  | Term Loan-Long Term                   | LT | 1349.85 | CARE AA-; Stable     | 1)CARE AA-; Stable<br>(08-Oct-18)     | 1)CARE AA; Stable<br>(26-Dec-17)  | 1)CARE AA; Stable<br>(30-Dec-16)<br>2)CARE AA<br>(19-Oct-16)           | 1)CARE AA<br>(26-Oct-15)                               |
| 6.  | Fund-based - LT-Cash Credit           | LT | 250.00  | CARE AA-; Stable     | 1)CARE AA-; Stable<br>(08-Oct-18)     | 1)CARE AA; Stable<br>(26-Dec-17)  | 1)CARE AA; Stable<br>(30-Dec-16)<br>2)CARE AA<br>(19-Oct-16)           | 1)CARE AA<br>(26-Oct-15)                               |
| 7.  | Debentures-Non Convertible Debentures | LT | 300.00  | CARE AA-; Stable     | 1)CARE AA-; Stable<br>(08-Oct-18)     | 1)CARE AA; Stable<br>(26-Dec-17)  | 1)CARE AA; Stable<br>(30-Dec-16)<br>2)CARE AA<br>(19-Oct-16)           | 1)CARE AA<br>(26-Oct-15)                               |
| 8.  | Fixed Deposit                         | LT | 50.00   | CARE AA-(FD); Stable | 1)CARE AA-(FD); Stable<br>(08-Oct-18) | 1)CARE AA (FD); Stable<br>(26-Dec-17)<br>2)CARE AA (FD); Stable<br>(04-Aug-17)<br>3)CARE AA (FD); Stable<br>(23-May-17) | 1)CARE AA (FD); Stable<br>(30-Dec-16)<br>2)CARE AA (FD)<br>(19-Oct-16) | 1)CARE AA (FD)<br>(26-Oct-15)                          |
| 9.  | Commercial Paper                      | ST | 50.00   | CARE A1+             | 1)CARE A1+<br>(08-Oct-18)             | 1)CARE A1+<br>(26-Dec-17)   | 1)CARE A1+<br>(30-Dec-16)<br>2)CARE A1+<br>(19-Oct-16)                 | 1)CARE A1+<br>(26-Oct-15)<br>2)CARE A1+<br>(15-May-15) |
| 10. | Commercial Paper                      | ST | 150.00  | CARE A1+             | 1)CARE A1+<br>(08-Oct-18)             | 1)CARE A1+<br>(26-Dec-17)   | 1)CARE A1+<br>(30-Dec-16)<br>2)CARE A1+<br>(19-Oct-16)                 | 1)CARE A1+<br>(26-Oct-15)<br>2)CARE A1+<br>(15-May-15) |
| 11. | Commercial Paper                      | -  | -       | -                    | -                                     | -   | -  | 1)CARE A1+<br>(26-Oct-15)                              |

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