JK Lakshmi Cement Limited

May 23, 2017

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Fixed Deposits	25 (enhanced from 15)	**CARE AA (FD); Stable [Double A (Fixed Deposits); Outlook: Stable]**	Reaffirmed
Total	**25 (Rupees Twenty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instruments of JK Lakshmi Cement Limited (JKLC) continues to derive strength from the experienced promoters, strong brand image and diversified presence of the company in the northern, western and eastern Indian market, 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 relatively moderate solvency profile, residual capex, volatile input costs and cyclicality associated with cement industry.

The rating also takes note of subdued operating performance in FY16 (refers to the period April 1 to March 31) primarily on account of lower than envisaged realizations in Eastern markets, leading to weak profitability and coverage indicators. However, during 9MFY17, the company's profitability levels and coverage indicators had improved with around 100% capacity utilization level achieved from the Durg plant leading to a strong market base coupled with higher realizations and relatively better demand growth in the Northern markets during 9MFY17.

Going forward, the ability of the company to sustain growth in overall volume, achieve envisaged sales realization especially in wake of increased capacity addition in Eastern markets, improvement in profitability in light of volatile input costs, timely setting up of Waste Heat Recovery Plant (WHRP), exposure to stabilisation risks for the recently commissioned capacity, viz, additional capacity at Durg plant & the plant under its subsidiary, Udaipur Cement Works Limited (UCWL) and any higher than anticipated capex shall be the 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 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: With commissioning of the Durg plant in March 2015 and with it reaching healthy capacity utilization, the company has a diversified geographical presence in the northern, western and eastern markets. The company's expanded footprint now 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 has also commissioned the Surat unit on September 30, 2016, which will cater to incremental demand emanating from the western market. Also, the company has completed the capacity enhancement at Durg in March 2017 (from 1.8 mtpa to 2.7 mtpa). In addition, the cement plant of 1.75 mtpa under Udaipur Cement Works Ltd (UCWL) has been commissioned with start of commercial production from March 31, 2017.

Strong operating efficiencies: JKLC has captive power plants with total capacity of 74 MW as on March 31, 2016, at its Sirohi, Rajasthan plant. Limestone is sourced from captive mine located adjacent to the plants, which is available to JKLC

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

on long-term lease from state government. These long-term power sources not only provide captive power to meet the entire power requirement, cost of power is lower than that of power rates of grid. Also, the company's power and fuel consumption levels are one of the lowest in the industry.
The company has also been able to achieve Capacity Utilization much higher than the industry average as well as against some of the other players in the northern and western regions. This has enabled the company to become one of the most cost-efficient producers of cement.

Comfortable liquidity profile: The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of about Rs.510 crore as on March 31, 2017 (Provisional).

Key Rating Weaknesses

Subdued operating performance in FY16; however, improvement in 9MFY17
During FY16, operating income of JKLC increased by 13.21% y-o-y to Rs.2,620.69 crore on account of increase in volumes by around 23%; however, profitability was impacted primarily due to subdued cement prices.
However, from Q4FY16 onwards, the operating performance has shown improvement led by healthy volume growth and realizations in the Northern markets. The utilization levels, especially for the Durg plant, have been healthy in 9MFY17. During 9MFY17, JKLC's total operating income increased to Rs.2,103.69 crore as against operating income of Rs.1,884.76 crore in 9MFY16 whereas PBILDT in 9MFY17 increased to Rs.293.85 crore as against Rs.186.73 crore in 9MFY16.

Moderate solvency position: On account of drawdown of debt for ongoing capex for various projects combined with repayment of debt, the overall gearing ratio of the company has remained stable at 1.44x as on March 31, 2016, as compared with 1.43x as on March 31, 2015, on a standalone basis. The net gearing ratio (excluding cash from debt) also stood moderate at 1.26x as on March 31, 2016 (1.23x as on March 31, 2015). Going forward, the overall gearing ratio is expected to decline with the commissioning of the Durg plant. On a consolidated basis, overall gearing ratio increased to 1.75x as on March 31, 2016, as against 1.53x as on March 31, 2015, due to debt availed for UCWL project under HITCL.

Exposure to volatility in prices of coal and fuel cost: The company generally procures the coal from open market from domestic and international coal producers. Also, a significant portion of fuel requirement (around 80%) is met through pet coke, which is sourced from domestic producers. Absence of long-term fuel supply agreements and coal linkages; exposes the company to any adverse volatility in the prices of the commodities.

Analytical Approach followed: CARE has analysed the standalone financials of JKLC and has also considered the brownfield expansion being undertaken in its subsidiary, Udaipur Cement Works Limited (UCWL). JKLC has given corporate guarantee for the debt being availed by Hansdeep Industries & Trading Company Limited (HITCL), a wholly-owned subsidiary of JKLC, (for onward lending to UCWL) and the same has been factored into the rating.

Applicable Criteria
CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
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
JKLC (CIN No.: L74999RJ1938PLC019511), a part of JK Group (East), was incorporated in 1938 and commenced the cement business in August 1982. 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 10.9 million tonne per annum (mtpa) and power capacity of 74 MW as on March 31, 2017, and is one of the leading cement players in the north and western India region. The company has also expanded its presence in the Eastern market, which is served through its 2.7 mtpa Durg,

Chhattisgarh cement plant. The Northern and Western markets are catered through its integrated cement and grinding units located in Rajasthan, Gujarat, and Haryana.

During FY16, JKLC reported a PAT of Rs.6.28 crore on a total operating income of Rs.2,620.69 crore as against PAT of Rs.95.60 crore on a total operating income of Rs.2,314.92 crore during FY15. During 9MFY17 (refers to the period April 1 to December 31), JKLC achieved a total operating income of Rs.2,103.69 crore with a net profit of Rs.68.66 crore as against operating income of Rs.1,884.76 crore with a net loss of Rs.57.06 crore in 9MFY16.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	25.00	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Commercial Paper	ST	120.00	CARE A1+	-	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15)	1)CARE A1+ (18-Feb-15)
2.	Non-fund-based - ST-BG/LC	ST	450.00	CARE A1+	-	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15)	1)CARE A1+ (18-Feb-15)
3.	Debentures-Non Convertible Debentures	LT	129.79	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)	1)CARE AA (18-Feb-15)
4.	Term Loan-Long Term	LT	1642.90	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)	1)CARE AA (18-Feb-15)
5.	Fund-based - LT-Cash Credit	LT	200.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)	1)CARE AA (18-Feb-15)
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)	1)CARE AA (18-Feb-15)
7.	Fixed Deposit	LT	25.00	CARE AA (FD); Stable	-	1)CARE AA (FD); Stable (30-Dec-16) 2)CARE AA (FD) (19-Oct-16)	1)CARE AA (FD) (26-Oct-15)	1)CARE AA (FD) (18-Feb-15) 2)CARE AA- (FD) (27-May-14)
8.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15) 2)CARE A1+ (15-May-15)	1)CARE A1+ (18-Feb-15)
9.	Commercial Paper	ST	150.00	CARE A1+	-	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15) 2)CARE A1+ (15-May-15)	-

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