JK Lakshmi Cement Limited

September 04, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,459.41 (Enhanced from 1,412.84)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	700.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**2,159.41 (Rs. Two Thousand One Hundred Fifty-Nine Crore and Forty-One Lakhs Only)**		
Non-Convertible Debentures	225.00 (Rs. Two Hundred Twenty Five Only)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Non-Convertible Debentures**	0.00 (36.60)		**Withdrawn**
Fixed Deposits	50.00 (Rs. Fifty crore)	**CARE AA- (FD); Stable (Double A Minus [Fixed Deposit]; Outlook : Stable)**	**Reaffirmed**
Commercial Paper*	175.00 (Rs. One Hundred Seventy Five crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

**Carved out of working capital limits*

***CARE has withdrawn the rating assigned to the Non-Convertible debentures (NCDs) of the company with immediate effect, as the company has repaid the balance outstanding amount in full and there is nil amount outstanding under the said instruments as on date.*

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of JK Lakshmi Cement Limited (JKLC) continue 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 its strong operating efficiencies in terms of freight and power consumption parameters. The ratings also derive comfort from the improvement in operational and financial performance of the company in FY20, improved profitability of JKLC's subsidiary, Udaipur Cement Works Ltd (UCWL), in FY20, comfortable financial profile and strong liquidity position of the company.

The rating is, however, constrained by the 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. Besides, it factors in the uncertainty regarding the timing of the on-going Covid-19 pandemic clearing out, which impacted the Q1FY21 operational performance of the company.

Rating sensitivities:

Positive sensitivities:

- Sustained growth in top-line by around 15%-20% p.a. without affecting margins
- Sustenance of PBILDT margins at over 20%
- Improvement in leverage levels, going forward, with overall gearing settling below unity on a consolidated basis.

Negative sensitivities:

- Decline in PBILDT margins below 13%-14% due to volatility in input costs.
- Substantial decline in sales volume resulting in lower capacity utilization of plants and decline in the total operating income on a sustained basis.
- Any large-scale debt-funded capex, leading to deterioration in capital structure or increase in overall gearing levels on a consolidated basis.

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

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 of about four decades. 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. The company also sells cement under the brand names *JK Lakshmi Pro+* and *Platinum* in the premium segment. The company also launched a new brand *JK Sixer Cement* in September 2018 in Rajasthan, Gujarat and Madhya Pradesh.

Diversified market presence:

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). The company has also started cross-selling of cement brands under JKLC and its subsidiary, Udaipur Cement Works Limited (UCWL) to cater to the rising demand from nearby areas of Rajasthan and Gujarat, and reduce freight costs.

Strong operating efficiencies:

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 majority of its power requirements through its captive power capacity (coal and waste heat recovery based) of 105 MW. The 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. Nonetheless, the cement operations remain exposed to volatility in prices of coal and other inputs.

The capacity utilization levels were at 76% in FY20 as against 86% in FY19, on consolidated basis owing to sudden hit by COVID-19 pandemic in March 2020.

Improvement in financial performance in FY20; however, moderation in Q1FY21 performance on account of Covid-19:

During FY20, the consolidated operating income of JKLC increased marginally by around 1% y-o-y to Rs.4,394 crore as compared to Rs. 4,340 crore in FY19, despite decline in sales volume by about 2%. There has been a decline in sales volume, primarily attributable to Covid-19 outbreak which affected the operations of the company during last 10 days of March 2020 [11.09 million tonnes per annum (MTPA) in FY20 as compared to 11.31 MTPA in FY19]. However, the decline in sales volume was offset by an improved average sales realization price during the FY20. The company's PBILDT has increased significantly by around 77% to Rs.817 crore in FY20 (Rs.462 crore in FY19) and PAT has increased to Rs.253 crore in FY20 (Rs.41 crore in FY19). The improvement in performance in FY20 is mainly on account of higher sales realizations and higher PBILDT per tonne, due to cost saving measures adopted by the company, including commissioning of a 20 MW thermal power plant (TPP) at Durg in June 2019, cross-selling of cement brands under JKLC and UCWL, and reduction in lead distance which have led to reduced fuel and freight cost. Furthermore, there has been an improvement in financial performance of UCWL with increase in its total operating income by around 18.50% in FY20 on y-o-y basis (Rs.687 crore in FY20 as compared to Rs.580 crore in FY19). UCWL has reported a net profit of Rs.16 crore in FY20 against a net loss of Rs.41 crore in FY19. On consolidated basis, the overall gearing ratio of the company improved from 1.53x as on March 31, 2019 to 1.24x as on March 31, 2020 and the interest coverage also improved from 1.89x in FY19 to 3.71x in FY20.

The company has reported a decline of around 20% in TOI on Y-o-Y basis in Q1FY21, on account of Covid-19 pandemic, which resulted in nationwide lockdown leading to shutdown of all the plants from March 25 2020 to April 20, 2020. While the TOI of JKLC, on a consolidated basis, declined to Rs. 919 crore in Q1FY21 as compared to Rs. 1,142 crore in Q1FY20, PBILDT decreased by about 16.25% to Rs.180 crore in Q1FY21 (Rs. 214 crore in Q1FY20), PAT decreased by 5.80% to Rs. 51 crore in Q1FY21 (Rs. 54 crore in Q1FY20). The company's PBILDT margins, however, have improved on account of declining power and fuel costs and freight costs during the Q1FY21. As against PBILDT margin of 18.80% during Q1FY20, the same improved at 19.56% during the said period.

No major capex plans for future:

With the commissioning of 20 MW TPP at Durg in June 2019 and 0.80 MTPA split grinding unit at Odisha in September 2019, the company has completed the major part of its current on-going capex programme. Its residual capex plan entails only setting up a 10 MW Waste Heat Recovery Power Plant (WHRP) at Sirohi along with general capex and up gradation of additional 0.25 MTPA of clinker capacity and 0.60 MTPA of cement capacity at Udaipur, to be undertaken under UCWL. As such, the residual capex constitutes less than 20% of the company's net worth, for which the company has already tied up the debt component. However, any large scale debt funded capex in the future, leading to deterioration in capital structure or increase in overall gearing levels would remain a negative rating sensitivity.

Key Rating Weaknesses

Moderate solvency position:

Though the solvency ratios have improved during the FY20 on the backdrop of improved operational and financial performance of the company, they continue to remain at moderate levels. The Total Debt/GCA ratio on consolidated basis stood at 3.58x as on March 31, 2020 (9.19x as on March 31, 2019). While, the overall gearing ratio of the company has improved from 1.53x as on March 31, 2019 to 1.24x as on March 31, 2020, it remains at moderately high levels. The company, however, continues to maintain healthy liquidity which is expected to support debt coverage metrics.

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. Besides, its realizations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry

Liquidity Analysis: Strong

JKLC's liquidity position continues to be strong with a free cash balance (including liquid investments) of Rs.790 crore as on July 31, 2020, on a consolidated basis. The average utilization of fund based working capital limits (including commercial paper) were comfortable at 41% for 12 months ending July 31, 2020. The company has principal repayments of around Rs.289 crore in FY21 on a consolidated basis vis-à-vis gross cash accruals of Rs.558 crore in FY20 (including one-time exceptional non-cash item of Rs. 30.23 crore).

JKLC has availed of moratorium for its term loan installments with effect from March 1, 2020, for a period of six months towards deferment of their debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Analytical Approach: Consolidated

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
Rating Methodology – Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-Financial Sector
Rating Methodology - Cement Industry
CARE's Policy on curing period
Rating Methodology-Factoring Linkages in Ratings

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 1.60 MTPA in Rajasthan, which became operational in March 2017. Thus, the total consolidated cement capacity of the company is 13.30 MTPA.

Brief Financials (Consolidated) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4339.79	4393.73
PBILDT	462.46	816.78
PAT	40.62	252.94
Overall gearing (times)	1.53	1.24
Interest coverage (times)	1.89	3.70

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	-	1209.41	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	250.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	700.00	CARE A1+
Debentures-Non Convertible Debentures	INE786A07302 INE786A07310 INE786A07328	February 04, 2010	10.35%	July 20, 2020	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE786A07336 INE786A07344	January 06, 2017	8.90%	Jan 06, 2022	225.00	CARE AA-; Stable
Fixed Deposit	-	-	-	-	50.00	CARE AA- (FD); Stable
Commercial Paper	-	-	-	-	175.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
2.	Commercial Paper	ST	175.00	CARE A1+	-	1)CARE A1+ (06-Sep-19)	1)CARE A1+ (08-Oct-18) 2)CARE A1+ (02-May-18)	1)CARE A1+ (26-Dec-17)
3.	Non-fund-based - ST-BG/LC	ST	700.00	CARE A1+	-	1)CARE A1+ (06-Sep-19)	1)CARE A1+ (15-Mar-19) 2)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
5.	Term Loan-Long Term	LT	1209.41	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
6.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
7.	Debentures-Non Convertible Debentures	LT	225.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Sep-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)
8.	Fixed Deposit	LT	50.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (06-Sep-19)	1)CARE AA- (FD); Stable (08-Oct-18)	1)CARE AA (FD); Stable (26-Dec-17) 2)CARE AA (FD); Stable (04-Aug-17) 3)CARE AA (FD); Stable (23-May-17)
9.	Commercial Paper	ST	-	-	-	1)Withdrawn (06-Sep-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)
10.	Commercial Paper	ST	-	-	-	1)Withdrawn (06-Sep-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)

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.	Commercial Paper	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Fixed Deposit	Simple
4.	Fund-based - LT-Cash Credit	Simple
5.	Non-fund-based - ST-BG/LC	Simple
6.	Term Loan-Long Term	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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About CARE Ratings:

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