JK Lakshmi Cement Limited (Revised)

September 6, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,412.84	**CARE AA-; Stable (Double A Minus; Outlook : Stable)**	**Reaffirmed**
Short Term Bank Facilities	700.00 (enhanced from 650.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**2,112.84 (Rs. Two Thousand One Hundred Twelve crore and Eighty Four Lakh Only**		
Long Term Instruments	336.60 (Rs. Three Hundred Thirty six crore and Sixty Lakh only)	**CARE AA-; Stable (Double A Minus; Outlook : Stable)**	**Reaffirmed**
Fixed Deposits	50.00 (Rs. Fifty crore)	**CARE AA- (FD); Stable (Double A Minus [Fixed Deposit]; Outlook : Stable)**	**Reaffirmed**
Commercial Paper*	175 (Rs. One Hundred Seventy Five crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Commercial Paper**	-	**-**	**Withdrawn**

**Carved out of working capital limits*
***CARE has withdrawn the rating assigned to the Commercial Paper issue (standalone) of the company with immediate effect, as the company has repaid the aforementioned issue in full and there is nil amount outstanding under the said issue 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 experienced promoters, strong brand image and diversified presence of the company in the northern, western and eastern Indian markets, strong operating efficiencies of the company in terms of freight and power consumption parameters, and healthy volume growth. The ratings also derive comfort from the improvement in financial performance of the company in Q1FY20, improved profitability of JKLC's subsidiary Udaipur Cement Works Ltd (UCWL) in Q1FY20, comfortable liquidity position and no major capex plans for future. The rating is, however, tempered by relatively moderate solvency profile, refinancing risk in JKLC's subsidiary Hansdeep Industries & Trading Company Limited (HITCL), volatile input costs and cyclicality associated with cement industry.

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

Detailed description of the key rating drivers

Key Rating Strengths

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

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. 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: The company's expanded footprint spans the northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), western (Gujarat, Maharashtra, Madhya Pardesh) and eastern regions (majority sales from Chhattisgarh; rest from Odisha, Bihar & 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 rising demand from nearby areas and reduce freight costs.

Strong operating efficiencies and healthy volume growth: The company has captive limestone mines and is one of the low cost producers in the cement industry, in terms of freight and power consumption parameters. Further, the company achieved healthy volume growth of about 18% on consolidated basis in FY19. The capacity utilization levels also increased from 73% in FY18 to 86% in FY19, on consolidated basis.

Improvement in financial performance: During FY19, the consolidated operating income of JKLC increased by ~15% y-o-y to Rs.4,319 crore, mainly on account of increase in sales volume (11.31 MT in FY19 as compared to 9.66 MT in FY18). However, consolidated PAT declined by ~6% y-o-y to Rs.40.62 crore in FY19, on account of increase in prices of coal, pet coke and diesel and net loss of Rs.40.73 crore reported by UCWL. GCA, however, increased by ~10% in FY19 to Rs.232.29 crore.
Further, during Q120, the company has reported significant improvement in financial performance and the total consolidated operating income of JKLC has grown by ~9% on y-o-y basis to Rs.1,142 crore (Rs.1,052 crore in Q1FY19), PBILDT has increased by ~93% to Rs.214.49 crore in Q1FY20 (Rs.110.93 crore in Q1FY19), PAT has increased to Rs.53.75 crore in Q1FY20 (Rs.3.12 crore in Q1FY19) and GCA has increased to Rs.99.80 crore in Q1FY20 (Rs.47.70 crore in Q1FY19). The improvement in performance in Q1FY20 is mainly on account of higher sales realizations as well as higher PBILDT per tonne due to cost saving measures adopted by the company, including cross-selling, reduction in lead distance etc. Further, the commissioning of 20 MW Thermal Power Plant (TPP) at Durg in June 2019 and 7.5 MW solar power plant being set up at UCWL (proposed commissioning by December 2019) are expected to lead to further cost savings for the company.

Improvement in profitability of UCWL: JKLC's subsidiary, UCWL's total operating income has increased by ~56% in Q1FY20 on y-o-y basis (Rs.201.83 crore in Q1FY20 as compared to Rs.129.04 crore in Q1FY19) and it has reported net profit of Rs.13.75 crore in Q1FY20 as against net loss of Rs.10.92 crore in Q1FY19.

No major capex plans for future: With the commissioning of 20 MW TPP at Durg in June 2019 and expected commissioning of 0.8 MTPA split grinding unit at Odisha by September 2019, the majority of the capex is now over and the company has no other major capex plans for the future. On consolidated basis, the overall gearing ratio of the company improved from 1.86x as on March 31, 2018 to 1.53x as on March 31, 2019 and net gearing ratio (net of cash and cash equivalents) improved from 1.51x as on March 31, 2018 to 1.25x as on March 31, 2019. Further, the interest coverage (consolidated) also improved from 1.65x during FY18 to 1.79x during FY19.

Outlook on cement industry: Given the inherent 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

Moderate solvency position: Though the Total Debt/GCA ratio on consolidated basis, improved from 12.10x as on March 31, 2018 to 9.19x as on March 31, 2019, it still remains high.

Refinancing risk: The company has so far received sanctions from lenders for refinancing of NCDs in HITCL of Rs.295 crore, out of the total NCDs of Rs.525 crore. The balance NCDs of Rs.230 crore are due for repayment in FY21 (Rs.135 crore) and FY22 (Rs.95 crore). Timely completion of refinancing of the balance NCDs amount in HITCL will be crucial from credit perspective.

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 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 expose the company to any adverse volatility in the prices of the commodities.

Liquidity Analysis: Adequate
The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of around Rs.380 crore as on June 30, 2019. Average utilization of fund-based working capital limits (including Commercial Paper) was comfortable at 67.90% for 12 months ended June 2019. The company has principal repayments of about Rs.296 crore in FY20 on consolidated basis.

Analytical Approach: Consolidated
Following entities have been consolidated for the financial statements:

- Subsidiaries and Indirect Subsidiaries
    - Hansdeep Industries and Trading Company Limited (HITCL) – 100%
    - Udaipur Cement Works Limited (UCWL) – 72.54%
    - Ram Kanta Properties Private Limited (RKPPL) – 100%
- Associates
    - Dwarkesh Energy Limited (DEL) – 35%

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies
Rating Methodology - Cement Industry
Rating Methodology – Short Term Instruments
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 10.90 million tonne per annum (MTPA) on standalone basis. The cement plants of the company are situated in Rajasthan, Gujarat, Haryana and Chhattisgarh. Also, JKLC's subsidiary, Udaipur Cement Works Ltd (UCWL) has a cement plant of 1.60 MTPA in Rajasthan, which became operational in March 2017. With the expected commissioning of 0.80 MTPA split grinding unit at Odisha by September 2019, the consolidated cement capacity of the company will increase to 13.30 MTPA.

Brief Financials (Consolidated) (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3,756.22	4,319.21

Brief Financials (Consolidated) (Rs. crore)	FY18 (A)	FY19 (A)
PBILDT	434.18	456.51
PAT	43.36	40.62
Overall gearing (times)	1.86	1.53
Interest coverage (times)	1.65	1.79

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

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
Term Loan-Long Term	-	-	Dec-2033	1162.84	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	February 04, 2010 July 20, 2012	10.35%	July 20, 2020	36.60	CARE AA-; Stable
Debentures-Non Convertible Debentures	January 06, 2017	9.15%	Jan 06, 2022	300.00	CARE AA-; Stable
Fixed Deposit	-	-	-	50.00	CARE AA- (FD); Stable
Commercial Paper	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	0.00	Withdrawn
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
2.	Commercial Paper	ST	175.00	CARE A1+	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16)

						2)CARE A1+ (02-May-18)		2)CARE A1+ (19-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	700.00	CARE A1+	-	1)CARE A1+ (15-Mar-19) 2)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)
4.	Debentures-Non Convertible Debentures	LT	36.60	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)
5.	Term Loan-Long Term	LT	1162.84	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)
6.	Fund-based - LT-Cash Credit	LT	250.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA; Stable (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)
8.	Fixed Deposit	LT	50.00	CARE AA- (FD); Stable	-	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)	1)CARE AA (FD); Stable (30-Dec-16) 2)CARE AA (FD) (19-Oct-16)
9.	Commercial Paper	ST	-	-	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)
10.	Commercial Paper	ST	-	-	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+

								(19-Oct-16)

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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