JK Lakshmi Cement Limited

October 08, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1599.85	CARE AA-; Stable (Double A Minus; Outlook : Stable)	Revised from CARE AA; Stable (Double A; Outlook : Stable)
Short Term Bank Facilities	500 (enhanced from 450)	CARE A1+ (A One Plus)	Reaffirmed
Total	**2099.85 (Rs Two Thousand Ninety Nine crore and Eighty Five Lakh Only**		
Long Term Instruments	373.19 (Rs. Three Hundred Seventy Three crore and Nineteen Lakh only)	CARE AA-; Stable (Double A Minus; Outlook : Stable)	Revised from CARE AA; Stable (Double A; Outlook : Stable)
Fixed Deposits	50 (Rs. Fifty Crore)	CARE AA- (FD); Stable (Double A Minus [Fixed Deposit]; Outlook : Stable)	Revised from CARE AA (FD); Stable (Double A [Fixed Deposit]; Outlook : Stable)
Commercial Paper	200 (Rs. Two Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper*	175 (Rs. One Hundred Seventy Five crore only)	CARE A1+ (A One Plus)	Reaffirmed

**Carved out of working capital limits*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the long term bank facilities and instruments of JK Lakshmi Cement Limited (JKLC) factors in weak financial performance of the company in FY2017-18 (refers to period April 01 to March 31) and Q1FY19, leading to moderation in debt protection measures. The rating also factor in relatively moderate solvency profile, volatile input costs and cyclicality associated with cement industry. Positives supporting the rating include 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.

Going forward, the achievement of envisaged sales realization and volume growth, improvement in profitability in light of volatile input costs and realisation 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: The Durg plant which commissioned in March 2015 has reached healthy capacity utilization. Thus, 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 also commissioned the Surat unit 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

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

mtpa). Also, in 2017, WHRP of 7 MW at Durg and the cement plant of 1.6 mtpa under Udaipur Cement Works Ltd (UCWL) 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 consolidated basis in cement volumes as against 6.30% growth rate in the industry.

Comfortable liquidity profile: The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of around Rs.400 crore as on July 31, 2018.

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

Weak financial performance in FY18 and Q1FY19: During FY18, on consolidated level, JKLC reported 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 Mar-17 onwards contributed to the increase in the total operating income. 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 UCWL 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 Q1FY19 standalone, the company reported increase in total operating income by 2.53%, however, the company has reported a decline of 51.41% and 25.01% in PAT and GCA respectively on Y-o-Y basis. The total operating income, PAT and GCA for Q1FY19 stood at Rs.934.44 crore (Rs.911.33 crore in Q1FY18), Rs.13.75 crore (Rs.28.30 crore in Q1FY18) and Rs.55.46 crore (Rs.73.96 crore in Q1FY18) respectively. The decline in PAT on Y-o-Y basis was due to high power & fuel cost and high freight cost.

Moderate solvency position: On 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 at whereas 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 ratio, it remains relatively high. Also, the total debt to GCA ratio remains high at 12.10x as on Mar 31, 2018 (10.55x as on Mar 31, 2017) at consolidated level.

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 69%) 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: 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Gautam Bafna
Tel: 011-4533 3256
Mobile: 09891493443
Email: gautam.bafna@careratings.com

****For detailed Rationale Report and subscription information, please contact us at** www.careratings.com

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
Term Loan-Long Term	June 08, 2018	-	June 30, 2030	1349.85	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	500.00	CARE A1+
Debentures-Non Convertible Debentures	February 04, 2010 July 20, 2012	10.35%	July 20, 2020	73.19	CARE AA-; Stable
Debentures-Non Convertible Debentures	January 06, 2017	8.90%	Jan 06, 2022	300.00	CARE AA-; Stable
Fixed Deposit	-	-	-	50.00	CARE AA- (FD); Stable
Commercial Paper	-	-	-	175.00	CARE A1+
Commercial Paper	-	-	-	150.00	CARE A1+
Commercial Paper	-	-	-	50.00	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+ (02-May-18)	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	500.00	CARE A1+	-	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15)
4.	Debentures-Non Convertible Debentures	LT	73.19	CARE AA-; Stable	-	1)CARE AA; Stable (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)
5.	Term Loan-Long Term	LT	1349.85	CARE AA-;	-	1)CARE AA; Stable	1)CARE AA; Stable	1)CARE AA (26-Oct-15)

				Stable		(26-Dec-17)	(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 (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA-; Stable	-	1)CARE AA; Stable (26-Dec-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (19-Oct-16)	1)CARE AA (26-Oct-15)
8.	Fixed Deposit	LT	50.00	CARE AA- (FD); Stable	-	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)	1)CARE AA (FD) (26-Oct-15)
9.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15) 2)CARE A1+ (15-May-15)
10.	Commercial Paper	ST	150.00	CARE A1+	-	1)CARE A1+ (26-Dec-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Oct-16)	1)CARE A1+ (26-Oct-15) 2)CARE A1+ (15-May-15)
11.	Commercial Paper	-	-	-	-	-	-	1)CARE A1+ (26-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691