JK Lakshmi Cement Limited

December 26, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1643.89	CARE AA; Stable (Double A; Outlook : Stable)	Reaffirmed
Short Term Bank Facilities	450	CARE A1+ (A One Plus)	Reaffirmed
Total	**2093.89 (Rs Two Thousand Ninety Three crore and Eighty Nine Lakh Only**		
Long Term Instruments	409.79 (Rs. Four Hundred Nine crore and Seventy Nine Lakh only)	CARE AA; Stable (Double A; Outlook : Stable)	Reaffirmed
Fixed Deposits	50 (Rs. Fifty Crore)	CARE AA (FD); Stable (Double A [Fixed Deposit]; Outlook : Stable)	Reaffirmed
Commercial Paper	200 (Rs. Two Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper*	120 (Rs. One Hundred Twenty 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 rating assigned to the bank facilities and 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, volatile input costs and cyclicality associated with cement industry.

The rating also takes note of improvement in financial performance during FY17, though the same was lower than envisaged.

Going forward, the achievement of envisaged sales realization and volume growth, improvement in profitability in light of volatile input costs, timely setting up of 20 MW Thermal Power Plant (TPP) at Durg, exposure to stabilisation risks for the recently commissioned capacity, viz. additional capacity and 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: 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 has also commissioned the Surat unit on September 30, 2016, which will cater 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, WRHP of 7 MW has been recently commissioned at Durg. In addition, the cement plant of 1.6 mtpa under Udaipur Cement Works Ltd (UCWL) has been commissioned with start of commercial production from March 2017.

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

Comfortable liquidity profile: The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of Rs.496.24 crore as on September 30, 2017 (Provisional).

Improvement in financial performance in FY17: During FY17, the operating income of JKLC at the standalone level increased by 12.65% y-o-y to Rs.2,953.06 crore on account of increase in volumes by about 8.50% and average realization by about 2.50%, although the financial performance was impacted on account of demonetization on cement demand and realizations during Q3FY17 and Q4FY17. Also, during FY17, at the standalone level, the company achieved net profit of Rs.81.14 crore as against net loss of Rs.7.62 crore in FY16 whereas GCA increased to Rs.246.67 crore in FY17 as against Rs.113.19 crore in FY16. During H1FY18, the company has achieved total operating income of Rs.1,677.79 crore, PAT of Rs.41.53 crore and GCA of Rs.144.80 crore at the standalone level as against total operating income of Rs.1432.80 crore, PAT of Rs.53.55 crore and GCA of Rs.146.12 crore during H1FY17.
At the consolidated level also, during FY17, operating income of JKLC increased by 12.23% y-o-y to Rs.2,979.46 crore while net profit stood at Rs.87.26 crore and GCA at Rs.254.56 crore as against net profit of Rs.4.26 crore and GCA of Rs.114.85 crore during FY16.

Recovery of cement industry: Given the inherent cyclical nature of the cement industry, the company remains exposed to risks associated with the same. Demand and hence production was impacted post demonetization wherein at a y-o-y basis, there was de-growth till March 2017; however, there has been improvement from March 2017 onwards in realizations. Also, GST implementation impacted the volumes during the year. Also, there has been increase in input cost. 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: On account of issuance of NCDs of Rs.300 crore and drawdown of debt for capex for projects, the overall gearing ratio of the company has increased to 1.58x as on March 31, 2017 at the standalone level (1.47x as on March 31, 2016). However, on account of healthy cash & cash equivalents, net gearing ratio has improved to 1.21x as on March 31, 2017 at the standalone level (1.27x as on March 31, 2016). Similarly, at the consolidated level also, the overall gearing ratio of the company has increased to 2.00x as on March 31, 2017 (1.78x as on March 31, 2016) whereas net gearing ratio has increased marginally to 1.61x as on March 31, 2017 (1.55x as on March 31, 2016).

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 84%) 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: Consolidated

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) at the standalone level and 12.5 million tonne per annum (mtpa) at the consolidated level in addition to 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.

Brief Financials (Consolidated) (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,654.89	2,979.46
PBILDT	294.76	426.21
PAT	4.26	87.26
Overall gearing (times)	1.78	2.00
Interest coverage (times)	1.33	1.74

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.*

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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 30, 2030	1443.89	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	200.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	450.00	CARE A1+
Debentures-Non Convertible Debentures	Feb 4, 2010 July 20, 2012	-	July 20, 2020	109.79	CARE AA; Stable
Debentures-Non Convertible Debentures	Jan 6, 2017	-	Jan 6, 2022	300.00	CARE AA; Stable
Fixed Deposit	-	-	-	50.00	CARE AA (FD); Stable
Commercial Paper	-	-	-	50.00	CARE A1+
Commercial Paper	-	-	-	150.00	CARE A1+
Commercial Paper	-	-	-	120.00	CARE A1+

CARE Ratings
Professional Risk Opinion

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	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)
2.	Debentures-Non Convertible Debentures	LT	109.79	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)
3.	Term Loan-Long Term	LT	1443.89	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.	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)
5.	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)
6.	Fixed Deposit	LT	50.00	CARE AA (FD); Stable	1)CARE AA (FD); Stable (04-Aug-17) 2)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)	1)CARE AA (FD) (18-Feb-15) 2)CARE AA- (FD) (27-May-14)
7.	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)
8.	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)	-
9.	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)

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