JSW Cement Limited

March 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	2596.11 (enhanced from Rs.2194.66 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities-Fund based	114.00 (reduced from Rs.135.92 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities- Non-Fund Based	425.00	**CARE A1; (A One)**	**Reaffirmed**
Total	**3135.11 (Rs. Three thousand one hundred Thirty five crore and eleven lakh only ninety eight crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings of JSW Cement Limited (JSWCL) takes into account prominent promoters (JSW group) alongwith the financial support, experienced management besides the group synergies accruing to JSWCL for procurement of raw materials (slag), location advantage of the plants as well as increase in scale of operations along with effort towards geographical diversification in revenue profile, fiscal incentives for West Bengal and Orissa plants.

The ratings are, however, constrained by exposure to volatility in prices of raw material, high gearing levels and moderate debt servicing indicators. The ratings factors in project execution risks associated with the ongoing capex, support to Shiva Cement Limited and inherent cyclicality of the cement industry.

JSWCL's ability to expand the capacities and reap benefits from the same and further deleverage its capital structure remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Prominent promoter group; experienced management

JSWCL is a part of JSW group, which in turn is a part of the Sajjan Jindal group. One of the fastest growing business groups in India, the JSW group has significant presence in the diversified business segments like steel, energy, infrastructure, cement, ventures and sports. By virtue of being a part of the group, JSWCL draws strength from the JSW group's well-established track record in project execution and cost management expertise. Additionally, JSWCL has made use of JSW brand name as well as wide marketing and distribution network of JSW Steel Limited (JSWSL) for setting up of its own marketing network. JSWCL also enjoys reasonable financial flexibility by virtue of being a part of JSW group. The management of the company is making special effort in expanding production capacity as well as diversifying its market presence. Furthermore, the promoters have infused funds to the tune of Rs.49 crore (Rs.30 crore as share capital and Rs.19 crore as share application money converted into equity in FY16) during FY15 and Rs.535 crore in FY18 to support growth plans and improve capital structure. They are expected to provide need based financial assistance to JSWCL. The consistent financial support in the past from the promoters enabled the company to ramp up its operations and manage its cash-flows in an efficient manner.

Integrated nature of operations providing assured supply of slag along with presence of limestone mines and captive power plants; albeit exposed to volatility in coal prices:

Key raw materials required for manufacturing of cement are limestone, slag, gypsum and coal. JSWCL procures limestone from captive mines at Kurnool District (Andhra Pradesh), having proven reserves of around 134 million tonnes (mt). Further, JSWCL has a long-term agreement with JSWSL for procuring slag at bulk rates. For west Bengal unit the company has tie up with Tata Steel Limited for supply of slag.Gypsum is purchased either from domestic market or is imported. For Dolvi unit as well, adequate slag is available from JSWSL's Dolvi unit.

Power and fuel, is one of the major cost components for cement manufacturers. The power requirements for JSWCL's Vijayanagar plant is met from power plant of JSW Energy Ltd (for which PPAs are in place while that of Nandyal and Salboni – mainly through Discoms. JSWCL's coal requirement is being met through imports from South Africa, Australia

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

and Indonesia. In absence of long-term fuel supply agreements and coal linkage with any of the domestic coal companies, JSWCL's profitability margins remain exposed to volatility in coal prices.

Location advantage of the plants, enabling JSWCL synergising its operations and enhancing its operational metricises: JSWCL's grinding and clinker units have location advantage in terms of proximity to raw material sources (limestone mines, Nandyal plant is located adjacent to the limestone mine and slag, Vijaynagar unit located in the vicinity of JSW Steel premises) and modes of transport (roads and rail). The target markets for JSWCL are Karnataka, Maharashtra, Andhra Pradesh, Telangana, Kerala, West Bengal, Tamil Nadu, Bihar, Jharkhand, Odisha and Goa which are adjacent localities from its manufacturing units which are in and around 400 kms radius from the units. The location advantage has important bearing on the profitability, considering cement is a freight intensive industry.

Constant increase in scale of operations by diversifying in new markets and enhancing its reach in key markets: Over the past few years, JSWCL's scale of operations increased on the back of higher sales volumes along with better realizations. The total operating income increased from Rs.1289 crore in FY16 to Rs.1729 crore in FY18. Further, an effort to increase geographical diversification, JSWCL has acquired approx. 53.52% stake in Shiva Cement through purchase of equity shares from promoters, ACC and other public shareholders under the open offer.

Improving in turnover, however decline in profitability in FY18: During FY18, the revenue increased from Rs.1506.69 crore in FY17 to Rs.1729.32 crore in FY18 owing to increase in volumes and higher realizations due to higher branding and advertisement of the company's products. As on March 31, 2018, the company had around 3350 (PY: 2101) dealers across India. However PBILDT has declined in FY18 to Rs. 338.54 crore from Rs. 395.94 crore in FY17, decline in PBILDT levels was on account of decline in income from government incentive and PBILDT level losses incurred by Shiva Cements. Further in line with Adjusted PBILDT levels Adjusted PAT has also declined to Rs. 51.43 crore in FY18 from Rs. 117.47 crore declines in PAT levels were primarily on account of higher depreciation and finance expense. Further revenue in 9MFY19 increased to Rs. 1856.30 crore and PAT to Rs. 32.95 crore on back of increase in volumes and realizations, further on back of increase in capacity expansion in existing markets and diversification in new markets.

Fiscal Incentives on back of capex in Salboni, West Bengal and Jajpur, Odissa: JSWCL is expected to receive the fiscal incentives from government for capacity expansion in Salboni, West Bengal and Jajpur, Odissa.

Key Rating Weaknesses

Project execution risk; but track record of successful project execution: The company has plans to increase the capacity from 6.4 mtpa in FY16 to 13.8 mtpa by midst of FY20 by expanding grinding capacity at Vijaynagar (Karnataka), Salboni (West Bengal), Jajpur (Orissa) and Dolvi. The project cost of Rs.1900 crore is projected to be funded by debt of Rs.1425 crore and the balance through internal accruals/ equity (about Rs.475 crore). JSWCL has successfully commissioned its expansion/greenfield facilities at Vijaynagar (Karnataka), Salboni (West Bengal) and Dolvi (Maharastra), further JSWCL is in advanced stage of completion of its Jajpur (Orissa) plant. JSWCL has demonstrated its superior project execution capabilities. JSWCL has completed the projects with minor deviations from expected cost and expected timelines.
The company has got the land, and all the necessary equipments are in place at the facility and all the necessary approvals are also in place for the Jajpur plant and have taken the land on long term lease from IDCO. The power requirements would be met from the state discom. The project is expected to be completed by May 2019. Also, in FY17, JSWCL incorporated 100% subsidiary "JSW Cement FZE" in Fujairah Free Zone located in the Emirate of Fujairah, UAE. JSW Cement FZE is setting up up 1-Million-ton clinker plant to cater the clinker requirement for JSW Cement Limited grinding units.

Leveraged capital structure and moderate debt coverage indicators: JSWCL's capital structure is leveraged as characterised by overall gearing of 2.27x (P.Y 3.44x) as on March 31, 2018 and long term debt to equity of 1.81x (P.Y 2.9x) as on March 31, 2018. During FY18, JSWCL's debt coverage indicators improved and its capital structure moderated primarily on account of equity infusion by promoters of Rs. 535.84 crore which resulted in increase in net worth to Rs. 1040.08 crore as on March 31, 2018 from Rs. 536.91 crore as on March 31, 2017. However, the debt levels increased to Rs. 2186.36 crore in FY18 from Rs.1781.16 crore in FY17 on the back of debt funded capex. There was slight deterioration in the interest coverage indicators as at FY18 vis-a-vis FY17 on account of increase in total debt on the back capacity expansion resulting in increase in interest expenditure.

Analytical approach: Consolidated

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments

[Rating Methodology: Factoring Linkages in Ratings](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology - Cement Industry](#)

Liquidity Analysis: The Company's working capital cycle is negative as at FY18, majorly owing to creditors. Major creditors comprise of acceptances for coal imports and clinker imports out of total Rs.177 crore. The company has sanctioned fund based and non-fund based limits of Rs.114 crore and Rs.425 crore respectively. The company, however, receives funding support from promoters and derives financial flexibility from being part of JSW group.

About the Company

JSW Cement Limited (JSWCL) is a part of JSW Group, JSWCL is engaged in manufacturing various grades of cements (Portland Slag Cement (PSC), Ordinary Portland Cement (OPC), Ground Granulated Blast Furnace Slag cement (GGBFS) and Concreel HD cement (CHC)).JSW Cement is managed by Mr. Parth Jindal, Mr. Parth is a Harvard Business School alumni.

JSWCL was established with a view to utilize the slag generated from the integrated steel plant at Vijayanagar works of JSW Steel Ltd. for production of cement. Slag-based cement has certain advantages, such as increased strength, less corrosion, heat and water-resistance and longevity, which JSWCL aims to capitalise on.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1506.69	1729.32
PBILDT	395.94	436.94
PAT	117.47	149.83
Overall gearing (times)	3.44	2.27
Interest coverage (times)	2.95	2.21

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. Pulkit Agarwal
Tel: 022-67543505
Email: pulkit.agarwal@careratings.com

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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
Non-fund-based - ST-BG/LC	-	-	-	425.00	CARE A1
Term Loan-Long Term	-	-	July 2025	1466.11	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	114.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March 2026	1130.00	CARE A-; 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 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.	Non-fund-based - ST-BG/LC	ST	425.00	CARE A1	1)CARE A1 (26-Dec-18) 2)CARE A1 (04-Apr-18)	-	1)CARE A3+ (17-Oct-16) 2)CARE A3+ (22-Sep-16)	1)CARE A3 (19-Jan-16) 2)CARE A3 (10-Apr-15)
2.	Term Loan-Long Term	LT	1466.11	CARE A-; Stable	1)CARE A-; Stable (26-Dec-18) 2)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-16)	1)CARE BBB (19-Jan-16) 2)CARE BBB (10-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	114.00	CARE A-; Stable	1)CARE A-; Stable (26-Dec-18) 2)CARE A-; Stable (04-Apr-	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-	1)CARE BBB (19-Jan-16) 2)CARE BBB (10-Apr-

					18)		16)	15)
4.	Fund-based - LT-Term Loan	LT	1130.00	CARE A-; Stable	1)CARE A-; Stable (26-Dec-18) 2)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-16)	1)CARE BBB (19-Jan-16) 2)CARE BBB (SO) (10-Apr-15)

CONTACT

Head Office Mumbai

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

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

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

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