JSW Cement Limited (Revised)

March 31, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	2443.91 (reduced from Rs. 2596.11 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities-Fund based	464.00 (enhanced from Rs.114.00 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities-Non-Fund Based	225.00 (reduced from Rs.425.00 crore)	**CARE A1; (A One)**	**Reaffirmed**
Total	**3132.91 (Rs. Three thousand One Hundred Thirty Two Crore and Ninety One Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of JSW Cement Limited (JSWCL) continues to derive comfort from the strength of experienced promoters (JSW group) along with established track record and financial support, experienced management, group synergies accruing to JSWCL for procurement of raw materials (slag) and power requirement, location advantage of the plants as well as consistent growth in operations, mitigation of project execution risk with the recent commissioning of Jajpur Plant and near-completion stage of Fujairah Plant, fiscal incentives for West Bengal, Orissa and Karnataka (Vijaynagar) plants.

The ratings are, however, constrained by exposure to volatility in prices of raw material and input costs impacting profitability, highly leveraged capital structure and deterioration in overall gearing levels, moderate debt servicing indicators, and inherent cyclicality of the cement industry.

Rating Sensitivities

Positive Factors

- Improvement in Overall Gearing below levels of 1x times on sustained basis.

Negative Factors

- Any material decline in average realization and sales volume across product segments, substantial rise in input costs resulting in lower than envisaged profitability and PBILDT margins below 20%
- Any substantial debt funded capital expenditure resulting in overall gearing more than 2x going forward and deterioration in debt protection metrics (Total debt/GCA > 5.0x) on a sustained basis.

Detailed description of the key rating drivers

Prominent promoter group; experienced management

JSWCL is a part of JSW group, which in turn is a part of the Sajjan Jindal group. 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. Furthermore, the promoters have infused funds to the tune of Rs.584 crore over the past few years to support growth plans and improve capital structure, thus 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. They are expected to provide need based financial assistance to JSWCL.

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

Integrated nature of operations providing assured supply of slag along with presence of limestone mines and captive power plants

Key raw materials required for manufacturing of cement are limestone, slag, gypsum, coal and pet-coke. JSWCL procures limestone from captive mines at Kurnool District (Andhra Pradesh), having proven reserves of around 134 million tonnes (MT), During FY19, the company has acquired new limestone mines in Kutch, Gujarat (125 MT) and Nagaur, Rajasthan (205 MT). The company also has 300 MT limestone reserve at Fujairah Plant, UAE. Further, JSWCL has a long-term agreement with JSWSL for procuring slag at bulk rates. For Salboni 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. 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 18MW captive thermal power plants have been commissioned to reduce the power cost. JSWCL's coal requirement is being met through imports from South Africa, Australia and Indonesia, while pet-coke is being sourced by a mix of local sourcing and imports.

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; completion of expansion projects undertaken: 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 has grown at a CAGR of 35.5% over the past 3 years. Further, in an effort to increase geographical diversification, JSWCL has acquired approx. 53.50% stake in Shiva Cement through purchase of equity shares from promoters, ACC and other public shareholders under the open offer. The company has successfully completed the expansion of grinding capacity Vijaynagar (Karnataka), Salboni (West Bengal), Jajpur (Orissa) and Dolvi (Maharashtra) which has increased the total capacity from 6.4 MTPA (Million tonnes per Annum) in FY16 to 14 MTPA (Million tonnes per Annum) as on March 25, 2020. JSWCL has demonstrated its superior project execution capabilities by completing the projects with minor deviations from expected cost and expected timelines. 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 1 MTPA clinker plant to cater the clinker requirement for JSW Cement Limited grinding unit which is expected to be operational by April 2020.

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. Further, the company has also received interest free loan for 75% of FAV (Fixed Asset Value) for Vijaynagar plant, Karnataka for a period of 10 years.

Key Rating Weaknesses

Leveraged capital structure and moderate debt coverage indicators:

JSWCL's capital structure is leveraged as characterised by overall gearing of 2.21x (P.Y 2.04x) as on March 31, 2019 and long term debt to equity of 1.93x (P.Y 1.63x) as on March 31, 2019 owing to debt funded expansion activities in the past 2-3 years. During FY19, JSWCL's debt coverage indicators and its capital structure deteriorated primarily on account of elevation in debt levels owing to capex of Jajpur and Dolvi plants. With no additional major debt funded capital expenditure envisaged by the company in the near to medium term and stabilization of cash flows with ramp up in sales volumes from recently commissioned units, Overall gearing is expected to improve going forward and is expected to reduce below 1.0x from FY23 onwards. Total debt is expected to remain at high levels in medium term owing to debt drawdown for Fujairah and Jajpur capex and is slated to improve gradually going forward. However, the comfort can be drawn as company has already completed the expansion for Vijaynagar, Dolvi and Salboni plants and has further successfully commissioned the Jajpur plant in December 2019.

PBIDLT interest coverage ratio although improved marginally to 2.01x in FY19 as against 1.71x in FY18 continues to remain moderate mainly due to high interest cost due to debt drawdown for capex.

Exposure to volatility in raw material prices and input costs impacting profitability margins

Although the company has captive mines for limestone and supply agreements for slag, The Company is still exposed to volatility of input prices for key components of its operating costs like freight, fuel and power costs in addition to raw material costs which form a major portion of its cost structure. Furthermore, with the surplus capacity of the cement industry, the price of cement remains susceptible to demand supply dynamics. The PBILDT margins have remained in the range of 22-26% historically, however dipped in FY19 to ~17% mainly due to high freight costs, driven by increase in fuel prices and higher volumes on the back of expansion projects undertaken by the company. PAT margin also declined in FY19 due to increase in interest and depreciation cost led by drawdown of debt and capex incurred at Dolvi and Jajpur. During 9MFY20, the company generated revenue of Rs.2066 crore and PBILDT Margin of 21.54%. Going forward, any significant increase in input costs will be key rating monitorable.

Inherent nature of cyclicality of cement industry; stable outlook
Cement industry is highly cyclical in nature and depends largely on the economic growth of the country with high degree of correlation between the GDP growth and the growth in cement consumption. 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.

Liquidity: Adequate
The Company's working capital cycle stood at ~4 days with collection period of 38 days and creditor days of 97 days in FY19. Major creditors comprise of acceptances for coal imports and clinker imports. Average Maximum working capital utilization for fund based limits stood at ~70% and for Non fund based limits stood at ~80% for 12 months ending February 2020. The company has total cash balance of Rs.35.57 crore as on March 31, 2019. Further, the company is expected to generate gross cash accruals of ~Rs.815 crore which is sufficient to cover debt repayment obligations of ~Rs.577 crore in the next 1 year. Moreover, the company receives funding support from promoters and derives financial flexibility from being part of JSW group.

Analytical approach: CARE has taken consolidated approach on account of strong operational and strategic linkages wherein the list of subsidiaries of which financials have been consolidated as on March 31, 2019 is provided in Annexure 4.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Manufacturing Industry
Rating Methodology –Cement Industry

About the Company
JSW Cement Limited (JSWCL) is a part of JSW Group, managed by Mr. Parth Jindal, Mr. Parth is a Harvard Business School alumni. 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 (CHD) and Composite Cement (CPC)
The company was established with a view to utilize the slag generated from the integrated steel plant at Vijaynagar 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. The company has total installed Capacity for manufacturing of Cement of 14 MTPA (Million Tonnes Per Annum) on consolidated basis with presence in West, South and East India spread across 10 states and distribution network of 3829 dealers as on March 25, 2020.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1630.92	2767.33
PBILDT	338.54	476.86
PAT	149.83	90.31
Overall gearing (times)	2.04	2.21
Interest coverage (times)	1.71	2.01

A: Audited

Note: The financials have been reclassified as per CARE standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

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
Non-fund-based - ST-BG/LC	-	-	-	225.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	464.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	June 2026	2443.91	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 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.	Non-fund-based - ST-BG/LC	ST	225.00	CARE A1	-	1)CARE A1 (29-Mar-19) 2)CARE A1 (26-Dec-18) 3)CARE A1 (04-Apr-18)	-	1)CARE A3+ (17-Oct-16) 2)CARE A3+ (22-Sep-16)
3.	Fund-based - LT-Cash Credit	LT	464.00	CARE A-; Stable	-	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-16)
4.	Fund-based - LT-Term Loan	LT	2443.91	CARE A-; Stable	-	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. DSCR (Debt Service Coverage Ratio)	Minimum 1.15x times
2. TTL/TNW (Total Term Liability/Tangible Networth)	Not to exceed 3.0x times up to FY20 and 2.5x times from FY21
3. FACR (Fixed Asset Coverage Ratio)	Not Below 1.15x times
B. Non-financial covenants	
1. Promoter Undertaking	To maintain minimum 51% shareholding and retain management control and to bring in any cost overrun in the project.
2. Borrower Undertaking	Any contribution from promoters/related parties in form of unsecured loans/NCD/OCD etc. to be subordinate to the credit facilities.

Annexure-4: List of subsidiaries of JSWCL getting consolidated (list as on March 31, 2019)

Name of companies/ Entities	Country of Incorporation	% of holding in FY19
JSW Cement FZE	UAE	100 %
Shiva Cement Limited	India	53.50 %
Utkarsh Transport Private Limited	India	100 %

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.*

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Ratnam Raju Nakka
Group Head Contact no - 022-6837 4472
Group Head Email ID- ratnam.nakka@careratings.com

Business Development Contact

Name: Saikat Roy
Contact no. : 022-6754 3404
Email ID: saikat.roy@careratings.com

Mr. Ankur Sachdeva
Contact no: + 91 98209 98779
E-mail ID: ankur.sachdeva@careratings.com

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