

JSW Cement Limited

December 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2,907.91	CARE A- (Under Credit watch with Developing Implications) (Single A Minus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	225.00	CARE A1 (Under Credit watch with Developing Implications) (A One) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Facilities	3,132.91 (Rs. Three Thousand One Hundred Thirty-Two Crore and Ninety-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings of JSW Cement Limited (JSWCL) under 'Credit Watch with Developing Implications' on account of the proposed capital expenditure plans under its subsidiary, Shiva Cement Limited (SCL) to the tune of Rs.1500 crore for 1.36 million tonnes (MT) per annum clinker plant and 1 MT per annum grinding unit which are expected to be executed over a period of 3-5 years along with expansion plans at its own various manufacturing facilities under JSWCL which will partially be funded by PE investment which the company is planning to raise by March 2021. The capex under Shiva Cement will be funded by debt of Rs.1150 crore and balance by a mix of equity infusion by JSWCL, Private Equity (PE) investment and rights issue. Resultantly, the company is exposed to project execution risks and the company is expected to draw down debt for the capex in phased manner over the next 3-4 years. Overall gearing ratio stood at around 2.31 times as on March 31, 2020. CARE would be following the developments closely to evaluate the impact of the above announced capex on the company and would take a view on the rating when the exact implications are clear in due course. Any negative deviation in timelines for fund raising from PE investors for capex plans will be critical from credit perspective and may impact the rating.

The ratings continue 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 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 cyclical nature of the cement industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

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

Negative Factors- Factors that could lead to negative rating action/downgrade:

- 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 negative deviation in the execution of proposed expansion plan within the specified timelines with any major cost overrun along with raising of funds for the same.
- Any delay in stake sale to private equity investor beyond March 31, 2020

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

About the proposed Capex

Odisha based Shiva Cement Limited which is a 59.34% subsidiary (As on September 30, 2020) of JSW Cement Limited, has announced its plan to invest over Rs.1500 crore for a new 1.36 million tonnes per annum (MTPA) clinker unit project in Sundergarh district of the state. The project consists of 4 components, namely, clinker project of 1.36 MT, grinding unit of 1 MT, waste heat recovery plant of 8 MW, and railway sidings conveyer belt with allied infrastructure (which will directly transport limestone from mines to the facility). Out of the 1500 crore capex, majority of capex is towards clinker project which accounts to ~Rs.600-700 crore. The project is expected to be funded by a mix of debt and equity wherein Rs. 1150 crore (76.67%) of the capital expenditure will be funded via debt, and balance through internal accruals of the company, right issue and PE investment. The total duration of the announced project under SCL is 3-5 years which will be executed in various phases with clinker unit and cement grinding unit expected to be commissioned by end of FY23 with railway infrastructure and ancillary facilities to be completed in next 5 years. The company is also in discussions to raise funds through PE investment which is targeted to close by March 2021 to fund the capex plan of JSW Cement. The company also plans to undertake routine capex which mainly includes of debottlenecking activities at existing plants in JSW Cement level which is expected to increase the current capacity of 14mt by additional 2.5 MT to 3 MT going forward. This capex will mainly be funded by the proposed PE investment.

Once commissioned, the clinker unit will service JSW Cement's manufacturing facilities across East Region (3.6 million tonne grinding capacity in east region i.e. Salboni and Jajpur Unit). Shiva Cement is currently in possession of 2 mining lease for limestone located adjacent to each other in Khatkurbahal. These mines have reserves of ~ 100 million tons Limestone. The expansion at Shiva cement is being undertaken in order to provide clinker to Salboni and Jajpur unit at more aggressive rate to reduce the total cost of production.

Salient features of capital expenditure plan:

1. The project under SCL includes setting up of 4000 TPD clinker unit, 1 MTPA grinding unit, 8 MW Waste heat recovery power plant, and other allied facilities like crushing plants at its Dolomite and Limestone mines, 10 Km long Overland Belt Conveyor to transport limestone from the Mines to the manufacturing plant and own railway siding with 12 Km long railway track to ensure seamless transportation of finished goods to the market.
2. The project under SCL has been awarded to ThyssenKrupp Industries India (design and supply a new state of the art 4,000 tonnes per day capacity Clinkerization unit) and Larsen & Toubro (contract for Civil, Mechanical & Refractory erection work of the new clinker unit at Shiva Cement.)
3. JSWCL is also planning to expand capacity of it's own manufacturing facilities with an objective to meet its long term vision of achieving 25MTPA capacity by December 2022

Link to access 'Description of key rating drivers; liquidity considered in the previous press release' on CARE Ratings website is given below:

Name	Press Release Link
JSW Infrastructure Limited	https://www.careratings.com/upload/CompanyFiles/PR/JSW%20Cement%20Limited-03-31-2020.pdf

Analytical approach: CARE has taken consolidated approach on account of strong operational and strategic linkages with limited review of key consolidated financials as on March 31, 2020. The list of subsidiaries of which financials have been consolidated is provided in Annexure 5.

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology – Manufacturing Industry](#)

[Rating Methodology –Cement Industry](#)

[Rating Methodology –Liquidity Analysis of Non-financial sector entities](#)

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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2767.33	2967.87
PBILDT	476.86	642.17
PAT	90.31	154.31
Overall gearing (times)	2.21	2.31
Interest coverage (times)	2.01	2.40

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

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

Complexity level of various instruments rated for this company: Annexure 4

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 (Under Credit watch with Developing Implications)
Term Loan-Long Term	-	-	-	1466.11	CARE A- (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	464.00	CARE A- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	-	977.80	CARE A- (Under Credit watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	225.00	CARE A1 (Under Credit watch with Developing Implications)	-	1)CARE A1 (31-Mar-20)	1)CARE A1 (29-Mar-19) 2)CARE A1 (26-Dec-18) 3)CARE A1 (04-Apr-18)	-
2.	Term Loan-Long Term	LT	1466.11	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-
3.	Fund-based - LT-Cash Credit	LT	464.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-
4.	Fund-based - LT-Term Loan	LT	977.80	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (29-Mar-19) 2)CARE A-; Stable (26-Dec-18) 3)CARE A-; Stable (04-Apr-18)	-

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 Network)	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: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

Annexure-5: List of subsidiaries of JSWCL getting consolidated (list as on March 31, 2020)

Name of companies/ Entities	Country of Incorporation	% of holding in FY20
JSW Cement FZE	UAE	100 %
Shiva Cement Limited	India	54.44 %
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.

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About CARE Ratings:

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Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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