JSW Cement Limited

December 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	2194.66	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities-Fund based	135.92 (reduced from Rs. 204.00 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities-Non-Fund Based	425.00 (enhanced from Rs. 356.92crore)	**CARE A1 (A One)**	**Reaffirmed**
Total	**2755.58 (Rs. Two thousand seven hundred fifty five crore and fifty eight lakh 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) experienced management besides the group synergies accruing to JSWCL for procurement of raw materials (slag) as well as marketing of end-product, location advantage of the plants as well as increase in scale of operations along with effort towards geographical diversification in revenue profile. The ratings also take into account financial assistance from promoters.

The ratings are, however, constrained by exposure to volatility in prices of raw material and moderate debt servicing indicators. The ratings factors in higher dependence on debt for future expansions along with project execution risks associated with it 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, minerals and mining, infrastructure & logistics, cement and information technology. 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.

Security of key inputs; but exposure 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). Considering JSWCL's net annual limestone requirement of about 3.19 mtpa, the estimated reserve is expected to be adequate for 42 years. Further, JSWCL has a long-term agreement with JSWSL for procuring slag at bulk rates. 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 short-term PPAs are in place while that of Nandyal – mainly through AP Discoms. JSWCL's coal requirement is being met through imports from South Africa,

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

Australia 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
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 and Tamil Nadu which are adjacent geographies from its manufacturing units. The location advantage has important bearing on the profitability, considering cement is a freight intensive industry.

Increasing scale in operations; diversification into Western market
Over the past two years, JSWCL's scale of operations increased on the back of higher sales volumes along with better realizations of GGBS. The total operating income increased from Rs.923 crore in FY15 to Rs.1627 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. Also, JSWCL incorporated 100% subsidiary "JSW Cement FZE" in Fujairah Free Zone located in the Emirate of Fujairah, UAE. JSW Cement FZE plans to set up 1-Million-ton clinker plant to cater the clinker requirement for JSW Cement Limited grinding units.

Improving operating and financial performance
During FY18, the revenue increased from Rs.1505 crore to Rs.1627 crore owing to increase in volumes due to higher branding and advertisement of the company's products. The company has 2101 dealers and 90 distributors across India. Further, the company has changed its sales-mix by increasing volume of PSC and GGBS as compared to OPC which has also resulted in improved profit margin.
Besides, branding and advertisement of the company's products has resulted into better demand for JSWCL products which has led to improvement in utilisation levels.

Improvement in capital structure and debt coverage indicators
JSWCL's total debt stood at Rs.2186 crore as on March 31, 2018 due to debt taken by the company for funding expansion at its various locations. The net-worth improved to Rs.1162 crore as at March 31, 2018 as compared to Rs. 541 crore as at March 31, 2017. The interest coverage indicators as at FY18 deteriorated on account of increase in debt during the year. However the company's capital structure improved with overall gearing of 2.03x as on March 31, 2018 on account of Rs. 535 crore fund infusion by the promoters. The debt coverage indicators are expected to remain moderate during the projected period owing to debt funded capacity expansion from 6.36 mtpa to 13.6 mtpa by FY19.

Key Rating Weaknesses
Project execution risk; but track record of successful project execution
The company has plans to increase the capacity from 6.36 mtpa in FY16 to 13.6 mtpa till FY19 by expanding grinding capacity at Vijaynagar (Karnataka), Salboni (West Bengal) and Kalinga Nagar (Orissa). The project cost of Rs.1885 crore is projected to be funded by debt of Rs.1414 crore and the balance through internal accruals/ equity (about Rs.471 crore). The company carries the risk of timely completion of project within the budgeted cost and timelines. However, the JSW group has experience in executing similar projects.
In March 2017, the company expanded the capacity by 1.2 MTPA of its existing plant at Vijaynagar. Another 1.2 MTPA was commissioned by November 2017. The company has entered into an agreement for buying slag from JSW Steel and the power would be procured from JSW Energy.
For the Salboni unit, the company has put up a Greenfield capacity. The land has been taken on long term lease and other approvals are in place including power from the state. The per tonne project cost for the same is higher owing to building of railway siding and coal mill included in the project cost. 1.2 MTPA was commissioned in July 2017 while another 1.2 MTPA was commissioned in January 2018.
The company has got the land and other approvals for the Jajpur plant and has 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 March 2019.

Analytical approach: Standalone

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](#)

About the Company

Till FY16, 72% of the equity stake of JSW Cement Ltd. (JSWCL) was held by JSW Investment Private Limited (group company of JSW group). Due to realignment of promoters holding, JSWCL became a subsidiary (90.54% equity stake) of Adarsh Advisory Services Private Limited (AASPL) which was formed on 10th January, 2014 to provide advisory and consultancy services and is 100% owned by Sajjan Jindal Family Trust). JSWCL was established with a view to utilize the slag generated from the integrated steel plant at Vijayanagar works of JSW Steel Ltd (JSWSL, rated CARE AA-; Stable/A1+) for production of cement.

JSWCL has facilities to produce 0.78 million tonne per annum (mtpa) of Ground Granulated Blast Furnace Slag (GGBS)/Portland Slag Cement (PSC) adjacent to JSWSL's plant at Vijayanagar (Karnataka). Further, in June 2012, JSWCL commissioned Greenfield cement plant comprising of clinkerization, grinding and blending facilities at Nandyal (Andhra Pradesh). The facility has capacities to produce 2.20 mtpa of clinker and 4.86 mtpa of GGBS/PSC/Ordinary Portland Cement (OPC). In addition, JSWCL has acquired a slag grinding unit in December 2012 with a capacity of 0.1 mtpa of GGBS to utilize slag generated by JSWSL's Dolvi steel complex (Maharashtra). 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	1504.70	1626.68
PBILDT	393.97	365.19
PAT	114.12	90.69
Overall gearing (times)	3.41	2.03
Interest coverage (times)	2.94	1.89

A: Audited

Status of non-cooperation with previous CRA:
Non Applicable

Any other information:
Non 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
Non-fund-based - ST-BG/LC	-	-	-	425.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	135.92	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	July 2025	2164.66	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 (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	1064.66	CARE A-; Stable	1)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	135.92	CARE A-; Stable	1)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)
4.	Fund-based - LT-Term Loan	LT	1130.00	CARE A-; Stable	1)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)

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