JSW Cement Ltd.

April 4, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	2194.66 (reduced from Rs.2231.58 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+ [Triple B Plus]**
Long term Bank Facilities-Fund based	204.00 (enhanced from Rs.129.00 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+ [Triple B Plus]**
Short term Bank Facilities-Nin-Fund Based	356.92 (reduced from Rs.395.00 crore)	**CARE A1 (A One)**	**Revised from CARE A3+ [A Three Plus]**
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 revision in ratings assigned to the bank facilities of JSWCL factors in improvement in capital structure due to equity infusion of Rs.535 crore by promoters and commissioning of additional facilities at Salboni and Vijaynagar plants.

The ratings are supported by prominent promoters (JSW group) and 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 need based financial assistance by 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

Promoted by JSW Investments Private Limited, (JIPL), 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 and cement. 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 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 3.62 mtpa at full capacity utilisation, the estimated reserve is expected to be adequate for 37 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.

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

Power and fuel, is one of the major cost components for cement manufacturers. The power requirements for JSWCL's Vijayanagar plant and JSWCL's Dolvi plant is met from power plant of JSW Energy Ltd. (for which long-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, 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, Dolvi unit is located adjacent to JSW Steel plant) and modes of transport (roads and rail). The target markets for JSWCL are Karnataka, Maharashtra, Andhra Pradesh, Telangana, Kerala, Tamil Nadu West Bangal, Bihar, Jharkhand and Orissa 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.1289 crore in FY16 and further to Rs.1494 crore in FY17. 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, in FY17, 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 FY17, the revenue increased from Rs.1289 crore to Rs.1494 crore owing to increase in volumes due to higher branding and advertisement of the company's products. As on March 31, 2017, 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. Capacity utilisation levels in the past 3 years have been shown below:

	FY15	FY16	FY17
	A	A	A
Installed Capacity (MTPA)	**6.00**	**6.4**	**7.60**
Capacity utilization (%)	**45**	**58**	**56***

**1.2 MTPA unit in Vijaynagar plant got commissioned on March 25, 2017*

Improvement in capital structure and debt coverage indicators
JSWCL's total debt stood at Rs.1789.36 crore as on March 31, 2017 due to debt taken by the company for funding expansion at its various locations. The net-worth improved to Rs.533.02 crore as at FY17 as compared to Rs.421.82 crore as at FY16. There was an improvement in the interest coverage indicators as at FY17 vis-a-vis FY16, however the company's capital structure remained moderately stretched with overall gearing of 3.48x as on March 31, 2017.
During December 2017, the promoters of JSWCL have infused funds of Rs.535.00 crore which shall lead to improvement in debt coverage indicators. The overall gearing post the equity infusion is expected to be 1.96x as on March 31, 2018. The funds infused by the promoters shall be utilized towards repayments of debt and for capital expenditure. The debt coverage indicators are expected to remain moderate with overall gearing of around 1.96x-0.55x during the projected period owing to debt funded capacity expansion from 6.4 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 6.4 mtpa in FY16 to 13.6 mtpa till FY19 by expanding grinding capacity at Vijaynagar (Karnataka), Salboni (West Bengal), Kalinga Nagar (Orissa) and Dolvi (Maharashtra). 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.

Location	Proposed Increased Grinding Capacity	Project Cost (Rs. Crore)	Incurred upto December 31, 2017 (Rs. Crore)	Key Raw Materials	COD	Approval Status

Location	Proposed Increased Grinding Capacity	Project Cost (Rs. Crore)	Incurred upto December 31, 2017 (Rs. Crore)	Key Raw Materials	COD	Approval Status
Exapansion of Vijaynagar facility, Karantaka	2.40 MMTPA (2 x 1.20 MMTPA)	450.00 (Debt :Equity 75:25)	435.06 (Funded through Rs.285 crore of debt and balance through IA)	Slag Clinker	1.2 MTPA: March 2017 1.2 MTPA: November' 2017	Commissioned
New grinding facility (Greenfield) at Salboni, West Bengal including cost of railway siding and a coal mill	2.40 MMTPA (2 x 1.20 MMTPA)	635.00 (Debt :Equity 75:25)	Rs. 583.2 Cr. (Funded crore of Rs.365.00 crore of debt and balance through IA)	Slag Clinker	2.4 MTPA: January 2018	Commissioned
New grinding facility (Greenfield) at Jajpur, Odisha	1.20 MMTPA (1 x 1.20 MMTPA)	450.00 (Debt :Equity 75:25)	Rs. 10 Cr. (Funded thru Internal Accruals)	Slag Clinker	March 2019	All statutory approvals like EC, CFE etc. from Pollution control Board has been obtained. Land is already sub-leased from IDCO.
Expansion of Dolvi plant	1.20 MMTPA (1 x 1.20 MMTPA)	350.00 (Debt :Equity 75:25)	Rs. 185.8 Cr (Funded Thru Mix of Debt & Internal Accruals)	Slag Clinker	June, 2018	All statutory approvals like EC, CFE etc. from Pollution control Board has been obtained. No additional land is required for the expansion.

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. 2.4 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 (79% 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 0.60 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 2.50 mtpa of clinker and 4.8 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)	FY16 (A)	FY17 (A)
Total operating income	1289.52	1494.54
PBILDT	306.70	395.44
PAT	89.25	115.65
Overall gearing (times)	2.58	3.48
Interest coverage (times)	2.31	3.05

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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capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	356.92	CARE A1
Term Loan-Long Term	-	-	June 2027	2194.66	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	204.00	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 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	356.92	CARE A1	-	1)CARE A3+ (17-Oct-16) 2)CARE A3+ (22-Sep-16)	1)CARE A3 (19-Jan-16) 2)CARE A3 (10-Apr-15)	1)CARE A4+ (15-Jul-14) 2)CARE A4+ (14-Apr-14)
2.	Term Loan-Long Term	LT	1064.66	CARE A-; Stable	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-16)	1)CARE BBB (19-Jan-16) 2)CARE BBB (10-Apr-15)	1)CARE BB+ (15-Jul-14) 2)CARE BB+ (14-Apr-14)
3.	Fund-based - LT-Cash Credit	LT	204.00	CARE A-; Stable	-	1)CARE BBB+ (17-Oct-16) 2)CARE BBB+ (22-Sep-16)	1)CARE BBB (19-Jan-16) 2)CARE BBB (10-Apr-15)	1)CARE BB+ (15-Jul-14) 2)CARE BB+ (14-Apr-14)
4.	Fund-based - LT-Term Loan	LT	1130.00	CARE A-; Stable	-	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)	1)CARE BBB (SO) (15-Jul-14)

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