Udaipur Cement Works Limited

May 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities – Cash Credit	30.00	**CARE AA- (CE); Stable* (Double A Minus [Credit Enhancement]; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities – Term Loan	425.00 (enhanced from Rs.220 crore)	**CARE AA- (CE); Stable* (Double A Minus [Credit Enhancement]; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities – Term Loan	100.00	**CARE AA- (CE); Stable* (Double A Minus [Credit Enhancement]; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	20.00	**CARE AA- (CE); Stable/CARE A1+ (CE)* (Double A Minus [Credit Enhancement]; Outlook: Stable/A One Plus [Credit Enhancement])**	**Reaffirmed**
Total	**575.00 (Rs. Five hundred and Seventy five crore only)**		

Details of instruments/facilities in Annexure-1

**Backed by unconditional and irrevocable corporate guarantee from JK Lakshmi Cement Limited (JKLC, rated 'CARE AA-; Stable/CARE A1+).*

Unsupported Rating [2]	**CARE BBB-/ CARE A3 (Triple B Minus/ CARE A Three)**

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Udaipur Cement Works Limited (UCWL) is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by JK Lakshmi Cement Limited (JKLC, rated 'CARE 'CARE AA-; Stable/CARE A1+').

The ratings assigned to the bank facilities and instruments of JK Lakshmi Cement Limited (JKLC) continue to derive strength from its experienced promoters, the strong brand image and diversified presence of the company in the northern, western and eastern Indian markets, significant operating efficiencies of the company in terms of freight and power consumption parameters, and healthy volume growth. The ratings also derive comfort from the improvement in financial performance of the company in FY20, improved profitability of JKLC's subsidiary Udaipur Cement Works Ltd (UCWL) in FY20, its comfortable liquidity position and absence of major capex plans for the foreseeable future. The rating is, however, tempered by relatively moderate solvency profile, volatile input costs and cyclicality associated with cement industry.

Rating sensitivities - JKLC

Positive Factors

- Improvement in operational performance resulting in annual growth in consolidated total operating income by 15%-20% on sustained basis.
- Increase in PBILDT margins to over 20% on sustained basis and improvement in leverage to below unity levels.

Negative Factors

- Decline in PBILDT margins below 14% -15% due to volatility in input costs.
- Substantial decline in sales volume resulting in lower capacity utilisation of plants and decline in the total operating income on a sustained basis.

Key Rating Drivers of UCWL (for unsupported rating)

The reaffirmation of the unsupported ratings of the bank facilities of UCWL factors in strong promoter group i.e. JK Lakshmi Cement Limited, improvement in financial performance of the company in FY20 as projected, adequate

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

liquidity position and absence of any major capex plans for the foreseeable future. The ratings are, however, constrained by relatively moderate solvency profile, the cyclicality associated with cement industry and the expected adverse impact of the Covid-19 pandemic on the business profile of UCWL in the short term.

Detailed description of the key rating drivers – JKLC
Key Rating Strengths
Experienced promoters and strong brand image: The promoters of JKLC have extensive experience in business of cement manufacturing. JKLC has a strong presence, especially in northern & western markets of India under the brand name 'JK Lakshmi Cement' in addition to its presence in the eastern Indian market. The company also sells cement under the brand names 'JK Lakshmi Pro+' and 'Platinum' in the premium segment. The company also launched a new brand 'JK Sixer Cement' in September 2018 in Rajasthan, Gujarat and Madhya Pradesh.

Diversified market presence: The company's expanded footprint spans the northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), western (Gujarat, Maharashtra, Madhya Pardesh) and eastern regions (majority sales from Chhattisgarh; rest from Odisha, Bihar & West Bengal). The company has also started cross-selling of cement brands under JKLC and its subsidiary, UCWL to cater to rising demand from nearby areas and reduce freight costs.

Strong operating efficiencies: The company has captive limestone mines and is one of the lowest cost producers in the cement industry, in terms of freight and power consumption parameters.

Improvement in financial performance: During FY20, the consolidated operating income of JKLC increased marginally by ~1% y-o-y to Rs.4,364 crore. There has been a decline in sales volume, primarily attributable to Covid-19 outbreak which affected the operations of the company during last 10 days of March 2020 [11.08 million tonnes (MT) in FY20 as compared to 11.31 MT in FY19]. However, the marginal decline in sales volume was offset by an improved average sales realization price during the FY20. The company's PBILDT has increased by ~75% to Rs.798 crore in FY20 (Rs.457 crore in FY19) and PAT has increased to Rs.253 crore in FY20 (Rs.41 crore in FY19). The improvement in performance in FY20 is mainly on account of higher sales realizations as well as higher PBILDT per tonne due to cost saving measures adopted by the company, including commissioning of a 20 MW thermal power plant (TPP) at Durg in June 2019, cross-selling of cement brands under JKLC and UCWL, reduction in lead distance which have led to reduced fuel and freight cost. Furthermore, there has been an improvement in financial performance of UCWL with increase in its total operating income by ~18.50% in FY20 on y-o-y basis (Rs.687 crore in FY20 as compared to Rs.580 crore in FY19). UCWL has reported a net profit of Rs.16 crore in FY20 against a net loss of Rs.41 crore in FY19.

Key Rating Weaknesses
Exposure to volatility in prices of coal and fuel cost as well as sales realization prices: JKLC generally procures coal from open market from domestic and international coal producers. Also, a significant portion of its fuel requirement is met through petroleum coke, which is also sourced from domestic as well as international markets. Absence of long-term fuel supply agreements and coal linkages expose the company to any adverse volatility in the prices of the commodities. Further, realizations and profitability also get impacted by demand, supply, offtake etc., which are inherent risks associated with the cement industry.
Liquidity analysis of corporate guarantee provider, JKLC: Adequate
The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of around Rs.476 crore as on March 31, 2020, on a consolidated basis. Average utilisation of fund based working capital limits (including Commercial Paper) were comfortable at 38.48% for 12 months ending March 31, 2020. The company has principal repayments of around Rs.287 crore in FY21 on a consolidated basis vis-à-vis gross cash accruals of Rs.528 crore in FY20.
JKLC has availed moratorium for its term loan installments with effect from March 1, 2020, for a period of three months towards deferment of their debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020.

Liquidity Analysis of UCWL: Adequate
The liquidity position of the company is adequate with cash and cash equivalents of about Rs.27 crore as on March 31, 2020. Average utilisation of fund based working capital limits were comfortable at 13% for 12 months ending March 31, 2020. The company has tied up debt for the refinancing of loans of Rs.525 crore availed from group company – Hansdeep Industries & Trading Company Limited (HITCL, rated 'CARE AA- (CE); Stable') – which in turn had raised Rs.525 crore through NCD issue for onward lending to UCWL.

Analytical Approach:
CE Rating: The analysis factors in credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by JKLC.
Un-supported Rating: Standalone, while factoring linkages with the parent company- JKLC.

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

About the Company
UCWL (CIN: L26943RJ1993PLC007267), is a subsidiary of JKLC. During FY14, UCWL became a subsidiary (associate company in the previous year) of JKLC with an increase in JKLC's equity shareholding, as per the terms of the BIFR sanctioned rehabilitation scheme of UCWL. As a part of the rehabilitation scheme of UCWL, the entire revival and rehabilitation and expansion project [1.60 Million Tonne Per Annum (MTPA)] was at a cost Rs.815 crore. The project was funded through debt of Rs.525 crore, promoter contribution of Rs.215 crore and balance through internal accruals. The project cost had been revised from Rs.700 crore earlier on account of additional civil structure, pollution equipment, power supply equipment, water pipeline, safety equipment, installation of new motors and higher interest cost due to shift in COD and additional Rs.50 crore debt.
UCWL came out of the purview of BIFR in January 2016. UCWL has set up 1.60 MTPA cement capacity in Udaipur, which commenced commercial operations from March 2017 (grinding unit of 0.65 MTPA was commissioned earlier).
Hansdeep Industries & Trading Company Limited (HITCL, rated 'CARE AA- (CE); Stable'), a wholly-owned subsidiary of JKLC, had raised Rs.525 crore through NCD issue, backed by unconditional and irrevocable guarantee from JKLC, which was used for onward lending to UCWL.

Brief Financials – UCWL (Standalone) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	579.70	686.88
PBILDT	40.34	126.04
PAT	-40.73	15.52
Overall gearing (times)	5.17	4.09
Interest coverage (times)	0.59	1.94

A: Audited

Brief Financials - JKLC (Consolidated) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4,319.21	4,364.07
PBILDT	456.51	798.05
PAT	40.62	252.94
Overall gearing (times)	1.53	1.14
Interest coverage (times)	1.79	3.55

A: Audited

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE AA- (CE); Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE AA- (CE); Stable / CARE A1+ (CE)
Fund-based - LT-Term Loan	-	-	Sep-2028	195.00	CARE AA- (CE); Stable
Fund-based - LT-Term Loan			March-2030	230.00	CARE AA- (CE); Stable
Fund-based – LT-Term Loan	-	-	Sep-2029	100.00	CARE AA- (CE); Stable
Un Supported rating- LT/ST	-	-	-	0.00	BBB-/ CARE A3

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.	Fund-based - LT-Cash Credit	LT	30.00	CARE AA- (CE); Stable	-	CARE AA- (CE); Stable (12-Sep-19)	1)CARE AA- (SO); Stable (08-Oct-18)	1)CARE AA (SO); Stable (21-Dec-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE AA- (CE); Stable / CARE A1+ (CE)	-	CARE AA- (CE); Stable / CARE A1+ (CE) (12-Sep-19)	1)CARE AA- (SO); Stable / CARE A1+ (SO) (08-Oct-18)	1)CARE AA (SO); Stable / CARE A1+ (SO) (21-Dec-17)
3.	Fund-based - LT-Term Loan	LT	425.00	CARE AA- (CE); Stable	-	CARE AA- (CE); Stable (12-Sep-19)	1)CARE AA- (SO); Stable (08-Oct-18)	-
4.	Fund-based - LT-Term Loan	LT	100.00	CARE AA- (CE); Stable	-	Provisional CARE AA- (CE); Stable (12-Sep-19) CARE AA- (CE); Stable (11-Oct-19)	-	-

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

Name of the Facility- RTL	Detailed explanation
A. Financial covenants	
Breach in any two of the four financial parameter for the FY21	DSCR- 1.65 ICR-2.54 FACR- 1.36 Debt/ EBITDA- 3.74
B. Non-financial covenants	Effect any change in capital structure where shareholding of the existing promoter gets diluted below the current levels, without prior permission of lenders.

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 – Ms. Jasmeen Kaur
Group Head Contact no. - 011-45333245
Group Head Email ID- jasmeen.kaur@careratings.com

Relationship Contact
Name: Ms. Swati Agrawal
Contact no. : 011-45333200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**