Udaipur Cement Works Limited

October 08, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long-term Bank Facilities – Term Loan	220	CARE AA- (SO); Stable (Double A Minus [Structured Obligation]; Outlook: Stable)	Assigned
Long-term Bank Facilities – Cash Credit	30	CARE AA- (SO); Stable (Double A Minus [Structured Obligation]; Outlook: Stable)	Revised from CARE AA (SO); Stable (Double A [Structured Obligation]; Outlook: Stable)
Long-term/Short-term Bank Facilities	20	CARE AA- (SO); Stable/CARE A1+ (SO) (Double A Minus [Structured Obligation]; Outlook: Stable/A One Plus [Structured Obligation])	Revised from CARE AA (SO); Stable/CARE A1+ (SO) (Double A [Structured Obligation]; Outlook: Stable/A One Plus [Structured Obligation])
Total facilities	**270 (Rs. Two Hundred and Seventy crore only)**		

Details of instruments/facilities in Annexure-1

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 AA-; Stable/CARE A1+').

The revision in the ratings assigned to the long term bank facilities and instruments of JK Lakshmi Cement Limited (JKLC) factors in weak financial performance of the company in FY2017-18 (refers to period April 01 to March 31) and Q1FY19, leading to moderation in debt protection measures. The rating also factor in relatively moderate solvency profile, volatile input costs and cyclicality associated with cement industry. Positives supporting the rating include the experienced promoters, strong brand image and diversified presence of the company in the northern, western and eastern Indian market, comfortable liquidity position, strong operating efficiencies of the company in terms of raw material and power consumption parameters, and its consistent track record in achieving better volume growth than industry.

Going forward, the achievement of envisaged sales realization and volume growth, improvement in profitability in light of volatile input costs and realisation and any higher than anticipated capex shall be the key rating sensitivities.

Detailed description of the key rating drivers

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.

Diversified market presence: The Durg plant which commissioned in March 2015 has reached healthy capacity utilization. Thus, the company's expanded footprint now spans the northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), western (Gujarat, Maharashtra) and eastern regions (majority sales from Chhattisgarh; rest from Odisha, Bihar & West Bengal).

The company also commissioned the Surat unit in 2016, which is catering to incremental demand emanating from the western market. The company has completed the capacity enhancement at Durg in March 2017 (from 1.8 mtpa to 2.7 mtpa). Also, in 2017, WHRP of 7 MW at Durg and the cement plant of 1.6 mtpa under Udaipur Cement Works Ltd (UCWL) was commissioned.

Consistent track record of achieving better than industry volume growth: The company continues to achieve better than industry volume growth and during FY18, the company achieved a growth of around 6.92% on standalone basis and 8.17% on consolidated basis in cement volumes as against 6.30% growth rate in the industry.

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

Comfortable liquidity profile: The liquidity position of the company continues to be comfortable with free cash balance (including liquid investments) of around Rs.400 crore as on July 31, 2018.

Outlook on cement industry: 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.

Key Rating Weaknesses

Weak financial performance in FY18 and Q1FY19: During FY18, on consolidated level, JKLC reported increase in total operating income by 28.21% from Rs.2916.20 crore in FY17 to Rs.3738.94 crore in FY18. Apart from the volume growth, commencement of operations in UCWL from Mar-17 onwards contributed to the increase in the total operating income. However, the net profit on consolidated level, declined by 50.31% from Rs.87.26 crore in FY17 to Rs.43.36 crore in FY18 due to losses reported by UCWL as it was the first year of operations for UCWL and also due to high power and fuel cost. Also, GCA declined by 17.32% in FY18 from Rs.254.56 crore in FY17 to Rs.210.48 crore in FY18.
Further, In Q1FY19 standalone, the company reported increase in total operating income by 2.53%, however, the company has reported a decline of 51.41% and 25.01% in PAT and GCA respectively on Y-o-Y basis. The total operating income, PAT and GCA for Q1FY19 stood at Rs.934.44 crore (Rs.911.33 crore in Q1FY18), Rs.13.75 crore (Rs.28.30 crore in Q1FY18) and Rs.55.46 crore (Rs.73.96 crore in Q1FY18) respectively. The decline in PAT on Y-o-Y basis was due to high power & fuel cost and high freight cost.

Moderate solvency position: On a consolidated level, overall gearing ratio of the company has decreased from 2.00x as on March 31, 2017 to 1.86x as on March 31, 2018 at whereas and also net gearing ratio (net of cash and cash equivalents) stood at 1.51x as on March 31, 2018 as compared to 1.61x as on March 31, 2017. While there has been a marginal improvement in gearing ratio, it remains relatively high. Also, the total debt to GCA ratio remains high at 12.10x as on Mar 31, 2018 (10.55x as on Mar 31, 2017) at consolidated level.

Exposure to volatility in prices of coal and fuel cost: The company generally procures the coal from open market from domestic and international coal producers. Also, a significant portion of fuel requirement (around 69%) is met through pet coke, which is sourced from domestic producers. Absence of long-term fuel supply agreements and coal linkages; exposes the company to any adverse volatility in the prices of the commodities.

Analytical Approach: The analysis factors in credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by JKLC.

Applicable Criteria
CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for Cement Industry
CARE's methodology for Manufacturing Companies
Rating Methodology for Factoring Linkages in Ratings
Financial Ratios – Non-Financial Sector

About the Company
UCWL (CIN: L26943RJ1993PLC007267), is a subsidiary of JKLC. During FY14, UCWL become a subsidiary (associate company in the previous year) of JKLC with increase in the 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 & Rehabilitation and expansion project (1.60 MTPA) is estimated to cost Rs.815 crore. The project is being 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). UCWL has incurred an expenditure of approximately Rs.807 crore on this project till September 30, 2017, funded by term debt of Rs.525 crore and balance through promoter contribution and internal accruals of UCWL.
Hansdeep Industries & Trading Company Limited (HITCL, rated CARE AA- (SO); Stable), a wholly-owned subsidiary of JKLC, has raised Rs.525 crore through NCD issue, backed by unconditional and irrevocable guarantee from JKLC, which has been used for onward lending to UCWL.

Brief Financials – UCWL (Standalone) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	85.67	387.41
PBILDT	3.87	21.56
PAT	2.74	-43.35
Overall gearing (times)	2.37	3.14
Interest coverage (times)	25.27	0.32

Brief Financials (Consolidated) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,979.46	3,756.22
PBILDT	426.21	434.18
PAT	87.26	43.36
Overall gearing (times)	2.00	1.86
Interest coverage (times)	1.74	1.65

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not 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.*

Analyst Contact:
Name: Mr. Gautam Bafna
Tel: 011-4533 3256
Mobile: 09891493443
Email: gautam.bafna@careratings.com

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

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- (SO); Stable
Fund-based - LT-Term Loan	Aug 2018	-	Dec 2028	220.00	CARE AA- (SO); Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE AA- (SO); Stable / CARE A1+ (SO)

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.	Fund-based - LT-Cash Credit	LT	30.00	CARE AA- (SO); Stable	-	1)CARE AA (SO); Stable (21-Dec-17)	-	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE AA- (SO); Stable / CARE A1+ (SO)	-	1)CARE AA (SO); Stable / CARE A1+ (SO) (21-Dec-17)	-	-
3.	Fund-based - LT-Term Loan	LT	220.00	CARE AA- (SO); Stable	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691