Rating Rationale

January 08, 2024 | Mumbai

JK Lakshmi Cement Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'

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Rating Action

Total Bank Loan Facilities Rated	**Rs.2098.99 Crore**
Long Term Rating	**CRISIL AA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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Rs.100 Crore Fixed Deposits	**CRISIL AA/Stable (Reaffirmed)**
Rs.175 Crore Commercial Paper&	**CRISIL A1+ (Reaffirmed)**

& Carved out of working capital
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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISILÂ Ratings has reaffirmed its â€˜CRISIL AA/Stable/CRISIL A1+â€™ ratings on the bank loan facilities, commercial paper programme and fixed deposits of JK Lakshmi Cement Ltd (JKLC). The ratingsÂ continue toÂ reflectÂ theÂ healthy business risk profileÂ of the company,Â backedÂ by its establishedÂ market positionÂ in the northern regionÂ andÂ highly cost-efficientÂ operations;Â along withÂ strongÂ financialÂ risk profile, driven by robust liquidity.Â These strengths are partially offset byÂ exposure relatedÂ to project implementation risk andÂ susceptibility to risks relating toÂ varyingÂ input costs,Â realisationsÂ and cyclicality inÂ theÂ cement industry.

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For fiscal 2023, consolidated operating income grew 18.8% over fiscal 2022 driven by volume growth (5.6%) and improvement in realisations (12.5%).Â Profitability,Â as measured byÂ earnings before interest, tax, depreciation and amortisation (Ebitda)Â perÂ tonne stood at Rs 710 in fiscal 2023 compared to Rs 849 in fiscal 2022 owing to increase in the prices of coal/ petcoke (the key input for the company).

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In the first half of fiscal 2024, operating income increased 9.2% on year-on-year basis owing to 9.4% growth in volume backed by healthy demand. In the current fiscal, volumes are expected to grow between 9-11% and profitability to improve with expected improvement in realisations and moderation in input costs during the fiscal.

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Financial leverage as measured by net debt to Ebitda increased to 1.4 times as on March 31, 2023 with progress of the debt funded capacity expansion (capex) in Udaipur Cement Works Ltd (UCWL) and lower accruals owing to increase in input prices during fiscal 2023, after reducing to less than 1 time as on March 31, 2022. Net debt to Ebitda is expected to increase further in fiscal 2024 with continued capacity expansion but will sustain below 1.5 times from fiscal 2025 onwards with higher accruals over the medium term.

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JKLCÂ had announcedÂ aÂ brownfield capex during fiscal 2022Â under its subsidiary, UCWL,Â for setting upÂ aÂ 1.5 million tonne per annum (mtpa) clinker capacity,Â 2.5 mtpa ofÂ cement grinding capacity,Â along withÂ waste heat recovery system (WHRS)Â plant and railway sidings. The estimated project cost of Rs 1,650 crore isÂ to be fundedÂ through aÂ debt of Rs 1,100 croreÂ (being guaranteed by JKLC), internal accrual of Rs 100 crore andÂ rights issue of UCWL. TheÂ project is largely on track and is expected to get commissioned ahead of its scheduled CoD of September 2024. Though the companyÂ remains exposed to project execution risk, past track record of successfully completingÂ various capacity addition projectsÂ provides comfort.

Analytical Approach

CRISILÂ RatingsÂ has combined the business and financial risk profiles ofÂ JKLCÂ and its associate and subsidiary companiesÂ as these are in similar lines of businessÂ and haveÂ strong financial, managerial and operational linkages.

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Healthy market position in the northern region:** JKLC has integrated cement capacities in Sirohi, Udaipur (both in Rajasthan), and Durg (Chhattisgarh); and grinding units in Jhajjar (Haryana), Cuttack (Odisha), Kalol and Surat (both in Gujarat). The cement from its Sirohi, Jhajjar, Kalol and Surat plant is primarily sold in Rajasthan, Gujarat and Madhya Pradesh, which contribute to more than ~75% of the sales from aforementioned plants, while Chhattisgarh and Odisha contributes to ~65% of cement from its Durg and Cuttack unit. The company also has an arrangement through which it has outsourced capacity in Amethi (Uttar Pradesh) with expectation of ramp up in production in fiscal 2024, which will further diversify the presence.

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- **Cost-efficient operations:** The plants are highly cost-efficient and JKLC is among the lowest cost producers in the cement industry. Proximity between plants and captive limestone mines assure supply of key raw material at low rates. Furthermore, the rising share of captive power sourcing through a total of 221 megawatt (MW) at consolidated level, that includes CPP of 74 MW, WHRS plant of 41 MW and solar power plant of 103 MW makes the operations self-sufficient by meeting majority of the power requirement. Strategic locations of these plants ensure competitive freight cost as compared to other industry players. Proximity to raw materials, rise in captive sourcing of power and competitive freight costs will continue to ensure high-cost efficiency over

the medium term.
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- **Healthy financial risk profile:** With strong operating performance, financial risk profile improved in fiscal 2022 with net debt to Ebitda ratio of below 1 time and interest coverage ratio above 7 times during fiscal 2022. Net debt to Ebitda increased to 1.4 times in fiscal 2023 as the company front loaded capex in fiscal 2023 along increased working capital requirement and lower accrual. Net debt to Ebitda is expected to increase further in fiscal 2024 with continued capacity expansion but will sustain below 1.5 times from fiscal 2025 onwards with higher accruals over the medium term. Further, with the expectation of increase in operating profitability, higher accruals from increased volumes, and existing debt expected to be repaid over the same period, the financial risk profile is expected to remain healthy over medium term.

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Further, being part of the JK group (eastern zone), coupled with extensive promoter experience and strong liquidity lends adequate financial flexibility to the company. Liquidity has been strong at over Rs 400 crore maintained over the past decade (around Rs 691 crore as on March 31, 2023) at consolidated level and is likely to remain so over the medium term as well. This helps the company to tidy over any unforeseen adversity considering the cyclical nature of the cement industry. Large unutilised fund-based bank limit also lends additional cushion to liquidity.

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Weaknesses:

- **Exposure to project-related risks:** The capex of around Rs 1,650 crore in UCWL is to be funded through debt of Rs 1,100 crore, internal accrual of Rs 100 crore and rights issue in UCWL of Rs 450 crore completed this fiscal. Thus, the company is exposed to risks related to project execution and ability to ramp-up new capacity.
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- **Susceptibility to risks relating to input costs, realisations and cyclicality in the cement industry:** Capacity addition in the cement industry tends to be sporadic because of the long gestation period for setting up a facility and the numerous players adding capacity during the peak of a cycle. This has led to unfavourable price cycles for the sector in the past. Moreover, profitability remains susceptible to volatility in input prices, including raw material, power, fuel and freight. Increase in coal and pet coke prices in fiscals 2022 and 2023 impacted profitability of several cement players. Realisations and profitability are also affected by demand, supply, offtake and regional factors. The company also remains exposed to fluctuations in fuel and cement prices.

Liquidity: Strong

JKLC has maintained healthy liquidity of above Rs 400 crore over the past decade and is likely to continue doing so over the medium term. Fund-based working capital limit of Rs 300 crore remained largely unutilised during the twelve months ended November 2023. Cash accrual and liquidity will be adequate to repay debt of around Rs 280 crore and Rs 600 crore in fiscals 2024 and 2025, respectively on consolidated basis, and fund planned capex.
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ESG Profile

CRISIL Ratings believes that JKLCâ€™s Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.
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The cement sector has a significant impact on the environment owing to higher emissions, waste generation and water consumption. This is because of energy intensive cement manufacturing process and its high dependence on natural resources such as limestone, coal as key raw materials. The sector has a social impact due to its nature of operations affecting local community and health hazards involved. However, JKLC has continuously focused on mitigating its environmental and social risks.
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Key ESG highlights:

- JKLC is working on enhancing AFR (alternative fuel and raw material) capability in its Sirohi plant. The company is targeting to achieve a thermal substitution rate of 20% by FY 2030.
- JKLC has set the target to meet 100% of total electrical energy requirements through renewable energy by 2040.
- The company is targeting to become 5 times water positive by FY2025.
- Its governance structure is characterised by 50% of its board comprising independent directors, split in chairman and CEO positions, dedicated investor grievance redressal system and extensive disclosures.

There is growing importance of ESG among investors and lenders. JKLCâ€™s commitment to ESG will play a key role in enhancing stakeholder confidence,Â given the high shareholding by foreign portfolio investors and access to both domestic and foreign capital markets.

Outlook: Stable

CRISIL Ratings believes JKLC will continue to benefit from its healthy business risk profile and strong financial risk profile over the medium term.

Rating Sensitivity factors

Upward factors:

- Improved business risk profile on the back of significant improvement in market share on a sustained basis
- Sustained improvement in Ebitda per tonne above Rs 1200

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Downward factors:

- Weakening of business risk profile due to loss of market share, and Ebitda per tonne declining below Rs 700 on a sustained basis
- Substantial delay in capex leading to cost and time overruns

About the Company

JKLC is part of the JK group (eastern zone) and was promoted by the late Mr Lala Lakshmipat Singhania and his son, the late Mr Hari Shankar Singhania. The company is presently headed by Mr Bharat Hari Singhania, (Chairman) and Smt Vinita Singhania (Vice Chairperson and Managing Director).
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JKLC had set up its first cement plant in 1982 with 0.5 mtpa capacity, which has now grown to a total cement capacity of 14.0 mtpa and clinker capacity of 8.5 mtpa as on December 31, 2022. It has integrated units in Sirohi, Udaipur and Durg; and grinding units in Jhajjar, Cuttack, Kalol and Surat. It has a total of 221 MW of captive power capacity on a consolidated level, which includes, thermal power plant of 74 MW, WHR plant of 41 MW, solar power plant of 103 MW along with power purchase agreement for wind power capacity of 4 MW.

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For the six months ended September 30, 2023, on consolidated basis JKLC reported profit after tax (PAT) of Rs 175.6 crore and operating income of Rs 3,304.8 crore as against Rs 176.9 crore and Rs 3,027.7 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators (consolidated) â€“ CRISIL Ratings-adjusted

Particulars	Unit	2023	2022
Revenue	Rs crore	6,452	5,431
Profit after tax (PAT)	Rs crore	369	478
PAT margin	%	5.7	8.8
Adjusted net debt/adjusted networth	Times	0.67	0.76
Interest coverage	Times	6.68	7.15

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Term loan	NA	NA	Sep-25	52.5	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Sep-25	65.63	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Sep-25	56.88	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Dec-25	45.68	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Mar-33	78	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Dec-33	64.29	NA	CRISIL AA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	161.01	NA	CRISIL AA/Stable
NA	External commercial borrowings	NA	NA	May-29	175	NA	CRISIL AA/Stable
NA	Fund-based facilities	NA	NA	NA	120	NA	CRISIL AA/Stable
NA	Fund-based facilities	NA	NA	NA	100	NA	CRISIL AA/Stable
NA	Fund-based facilities	NA	NA	NA	50	NA	CRISIL AA/Stable
NA	Fund-based facilities	NA	NA	NA	30	NA	CRISIL AA/Stable
NA	Non-fund based limit	NA	NA	NA	280	NA	CRISIL A1+
NA	Non-fund based limit	NA	NA	NA	200	NA	CRISIL A1+
NA	Non-fund based limit	NA	NA	NA	125	NA	CRISIL A1+
NA	Non-fund based limit	NA	NA	NA	245	NA	CRISIL A1+
NA	Non-fund based limit	NA	NA	NA	100	NA	CRISIL A1+
NA	Non-fund based limit	NA	NA	NA	150	NA	CRISIL A1+
NA	Commercial paper*	NA	NA	7-365 days	175	Simple	CRISIL A1+
NA	Fixed deposit	NA	NA	NA	100	Simple	CRISIL AA/Stable

** carved out of working capital limitsÂ*

Annexure â€“ List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Hansdeep Industries and Trading Co Ltd	Full	Significant operational and financial linkages
Udaipur Cement Works Ltd	Full	Significant operational and financial linkages
Ram Kanta Properties Pvt Ltd	Full	Significant operational and financial linkages
Dwarkesh Energy Ltd	Equity method	Proportionate consolidation

Annexure - Rating History for last 3 Years

Â	Current			2024 (History)		2023Â		2022Â		2021Â		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	998.99	CRISIL AA/Stable	Â	--	01-02-23	CRISIL AA/Stable	01-07-22	CRISIL AA/Stable	05-10-21	CRISIL AA/Stable	--
Â	Â	Â	--	Â	--	Â	--	17-06-22	CRISIL AA/Stable	Â	--	--
Â	Â	Â	--	Â	--	Â	--	02-03-22	CRISIL AA/Stable	Â	--	--
Non-Fund Based Facilities	ST	1100.0	CRISIL A1+	Â	--	01-02-23	CRISIL A1+	01-07-22	CRISIL A1+	05-10-21	CRISIL A1+	--
Â	Â	Â		Â		Â			CRISIL	Â		

			--		--		--	17-06-22	A1+		--	--
Â	Â	Â	--	Â	--	Â	--	02-03-22	CRISIL A1+	Â	--	--
Commercial Paper	ST	175.0	CRISIL A1+	Â	--	01-02-23	CRISIL A1+	01-07-22	CRISIL A1+	05-10-21	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	Â	--	Â	--	17-06-22	CRISIL A1+	15-07-21	CRISIL A1+	--
Â	Â	Â	--	Â	--	Â	--	02-03-22	CRISIL A1+	Â	--	--
Fixed Deposits	LT	100.0	CRISIL AA/Stable	Â	--	01-02-23	CRISIL AA/Stable	01-07-22	CRISIL AA/Stable	05-10-21	F AA+/Stable	--
Â	Â	Â	--	Â	--	Â	--	17-06-22	CRISIL AA/Stable	Â	--	--
Â	Â	Â	--	Â	--	Â	--	02-03-22	F AA+/Stable	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
External Commercial Borrowings	175	State Bank of India	CRISIL AA/Stable
Fund-Based Facilities	30	HDFC Bank Limited	CRISIL AA/Stable
Fund-Based Facilities	50	Indian Bank	CRISIL AA/Stable
Fund-Based Facilities	120	State Bank of India	CRISIL AA/Stable
Fund-Based Facilities	100	Axis Bank Limited	CRISIL AA/Stable
Non-Fund Based Limit	125	Indian Bank	CRISIL A1+
Non-Fund Based Limit	200	Axis Bank Limited	CRISIL A1+
Non-Fund Based Limit	245	HDFC Bank Limited	CRISIL A1+
Non-Fund Based Limit	100	IDBI Bank Limited	CRISIL A1+
Non-Fund Based Limit	120.66	YES Bank Limited	CRISIL A1+
Non-Fund Based Limit	280	State Bank of India	CRISIL A1+
Non-Fund Based Limit	29.34	YES Bank Limited	CRISIL A1+
Proposed Long Term Bank Loan Facility	161.01	Not Applicable	CRISIL AA/Stable
Term Loan	52.5	Indian Bank	CRISIL AA/Stable
Term Loan	65.63	Indian Bank	CRISIL AA/Stable
Term Loan	56.88	Central Bank Of India	CRISIL AA/Stable
Term Loan	45.68	State Bank of India	CRISIL AA/Stable
Term Loan	78	Indian Bank	CRISIL AA/Stable
Term Loan	64.29	Indian Bank	CRISIL AA/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings
Rating Criteria for Cement Industry
CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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