September 29, 2023

KJS Cement (I) Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated limits	30.00	[ICRA]BBB+ (Stable); assigned
Total	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for KJS Cement (I) Limited (KJS) factors in the fully integrated nature of manufacturing operations, sustained increase in revenues during FY2021-FY2023 and adequate debt coverage metrics. KJS has a fully integrated cement production facility with a captive power plant (CPP) and limestone mine reserves near its manufacturing unit at Satna, Madhya Pradesh. Its power requirements are met primarily through the CPP, which has an installed capacity of 27 MW. With likely commissioning of 14 MW Waste heat recovery system (WHRS) in January 2024, the dependence on grid power is expected to further reduce in the medium term.

The company's operating income (OI) stood in the range of Rs. 850 – 1,100 crore during FY2019-FY2023, while the operating margins reduced to 11.3% in FY2023 from 22.5% in FY2021 on account of higher input costs (power and fuel costs), coupled with expiry of fuel supply agreements (FSAs). The operating margin is expected to improve in the near to medium term due to easing of input costs, renewal of FSA agreements in H1 FY2024, cost saving capex initiatives such as WHRS and private railway siding and ramp-up in sales volume. With likely improvement in profitability, the interest coverage is estimated to remain adequate at around 4.0 times (PY: 2.7 times) and debt service coverage ratio (DSCR) is projected to be at 2.3 times (PY: 2.6 times) in FY2024.

The ratings are constrained by the moderate capital structure. The company's total debt remained high at Rs. 515 crore as on March 31, 2023 (PY: Rs. 418 crore) and increased in the last one year due to debt-funded grinding capacity expansion to 3.5 MT from 2.25 MT. The high debt levels, coupled with steep decline in operating margins in FY2023, led by high input costs resulted in TD/OPBITDA of 4.0 times (PY: 2.0 times) as on March 31, 2023. The ongoing debt-funded capex initiatives are expected to keep debt at elevated levels in the medium term. However, the TD/OPBITDA is estimated to improve to around 3.0 times as on March 31, 2024, with likely improvement in operating margins on account of moderation in input costs. The rating is also constrained by the geographical concentration risk and stiff competition in the cement industry. The company faces geographical concentration risk as majority of the revenues are from Uttar Pradesh and Madhya Pradesh. Further, with the stiff competition in the central market, amid multiple large industry players, KJS is susceptible to volatility in prices and/or reduction in market share. The company is also exposed to cyclical nature of the cement industry, which leads to variability in profitability and cash flows. Its operating profitability remains susceptible to fluctuations in input prices as witnessed in FY2023, with operating losses reported in one of the quarters.

ICRA takes note of the high contingent liabilities which stood at Rs. 177.2 crore as of March 2023 and are majorly due to past IT (during FY2011-FY2012) and GST raids (in FY2021). Any adverse developments impacting the cash flows of the company will remain a key monitorable.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that KJS will continue to benefit from its integrated nature of operations, adequate debt coverage indicators supported by long debt tenure and liquidity position.

Key rating drivers and their description

Credit strengths

Integrated cement operations – KJS has a fully-integrated cement production facility with a CPP and limestone mine reserves near its manufacturing unit at Satna, Madhya Pradesh. The power requirements are met primarily through its CPP, which has an installed capacity of 27 MW. With the likely commissioning of 14 MW WHRS in January 2024, the dependence on grid power is expected to further reduce in the medium term.

Healthy revenues and operating margins with adequate coverage indicators – The company's OI stood in the range of Rs. 850 – 1,100 crore during FY2019-FY2023, while the operating margins declined 11.3% in FY2023 from 22.5% in FY2021 on account of higher input costs (power and fuel costs), coupled with expiry of FSAs. The operating margin is expected to improve in the near to medium term due to easing of input costs, renewal of FSA agreements in H1 FY2024, cost saving capex initiatives such as WHRS and private railway siding and ramp-up in sales volume. With likely improvement in profitability in FY2024, the interest coverage is estimated to remain adequate at around 4.0 times (PY: 2.7 times) and the DSCR is projected to be at 2.3 times (PY: 2.6 times).

Credit challenges

Moderate capital structure – The company's total debt remained high at Rs. 515 crore as on March 31, 2023 (PY: Rs. 418 crore) and increased in the last one year due to debt-funded grinding capacity expansion to 3.5 MT from 2.25 MT. The high debt levels, coupled with steep decline in operating margins in FY2023, led by high input costs resulted in TD/OPBITDA of 4.0 times (PY: 2.0 times) as on March 31, 2023. The ongoing debt-funded capex initiatives are expected to translate into elevated debt levels in the medium term. However, the TD/OPBITDA is estimated to improve to around 3.0 times as on March 31, 2024, with likely improvement in operating margins on account of moderation in input costs.

Exposed to geographical concentration risk and intense competition in cement industry – The company faces geographical concentration risk as majority of the revenues are from Uttar Pradesh and Madhya Pradesh. Further, with intense competition in the central market, amid multiple large industry players, KJS is susceptible to volatility in prices and/or reduction in market share.

Vulnerability of revenues to cyclicality in economy – KJS remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. When the capacity addition exceeds the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, its operating profitability remains susceptible to fluctuations in input prices as witnessed in FY2023, with operating losses reported in one of the quarters.

Liquidity position: Adequate

The liquidity position is adequate with Rs. 49.5 crore unencumbered cash and cash equivalents as of June 2023 and undrawn fund-based working capital limits with average cushion of Rs. 32.0 crore in 12-month ending April 2023. The company has debt repayment obligations of ~Rs. 27.6 crore in FY2024, which can be comfortably serviced through its estimated cash flow from operations. It has capex plans of around Rs. 250 crore towards WHRS and private railway siding in FY2024 – FY2025, which is expected to be funded through debt of Rs. 195 crore and the balance through its internal accruals.

Rating sensitivities

Positive factors – The rating can be upgraded if there is healthy growth in revenues and profitability resulting in improvement in debt protection metrics and liquidity position on a sustained basis.

Negative factors – Negative pressure on KJS rating could arise if the revenues and margins decline, on a sustained basis, resulting in lower cash accruals and a moderation in the debt coverage metrics. Further, any large debt-funded capex impacting leverage and coverage metrics, DSCR of less than 1.6 times on a consistent basis, could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Cement Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

KJS Cement (I) Limited started its commercial production in October 2012 and caters to Madhya Pradesh, Uttar Pradesh and Bihar. The company has a fully integrated cement manufacturing unit in Satna district of Madhya Pradesh, with a clinker capacity of 2.2 MTPA and grinding capacity of 3.5 MTPA. In addition, it has a captive power plant with 27-MW capacity.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	1,009.1	1,143.7
PAT	64.2	23.9
OPBDIT/OI	20.5%	11.3%
PAT/OI	6.4%	2.1%
Total outside liabilities/Tangible net worth (times)	1.7	1.8
Total debt/OPBDIT (times)	2.0	4.0
Interest coverage (times)	3.1	2.7

Source: Company; ICRA research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					September 29, 2023	-	-	-
1	**Unallocated limits**	Long Term	30.00	-	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here.](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Unallocated limits**	-	-	-	30.00	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 4547 4829
abhishek.lahoti@icraindia.com

Hemant Vasishta Attaluri
+91 40 4547 4829
vasishta.attaluri@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91- 22- 61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches