

Hansdeep Industries & Trading Company Limited

October 08, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Instruments	480 (Rs. Four Hundred and Eighty Crore only)	CARE AA- (SO); Stable (Double A Minus [Structured Obligation]; Outlook : Stable)	Revised from CARE AA (SO); Stable (Double A [Structured Obligation]; Outlook : Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debenture (NCD) issues of Hansdeep Industries & Trading Company Limited (HITCL) is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantees provided by JK Lakshmi Cement Limited (JKLC, rated 'CARE AA-; Stable/CARE A1+') and a structured payment mechanism.

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 cyclical nature 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 realization 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.

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.

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

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](#)

[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

HITCL (CIN: U74899DL1993PLC054817), incorporated in the year 1993, is a wholly-owned subsidiary of JKLC. The company has invested in Udaipur Cement Works Ltd (UCWL) in the form of inter corporate loan (raised through NCD issue) to meet the part financing of revival & rehabilitation of UCWL including prepayment of existing debt of UCWL. The company did not have any significant business activities in the past but has commenced trading operations from FY16. HITCL has started trading of clinker wherein it supplies clinker to UCWL (to be supplied till UCWL's plant becomes fully operational), which is being sourced from JKLC.

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).

Brief Financials – HITCL (Standalone) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	147.68	138.75
PBILD	54.26	57.62
PAT	0.22	0.45
Overall gearing (times)	3.42	3.73
Interest coverage (times)	0.97	0.98

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of 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
Debentures-Non Convertible Debentures	August 13, 2015	11.25%	Aug 13, 2020	180.00	CARE AA- (SO); Stable
Debentures-Non Convertible Debentures	September 28, 2015	11.25%	Sep 28, 2020	125.00	CARE AA- (SO); Stable
Debentures-Non Convertible Debentures	April 12, 2016	11.25%	Apr 12, 2021	125.00	CARE AA- (SO); Stable
Debentures-Non Convertible Debentures	November 22, 2016	10.25%	Oct 15, 2021	50.00	CARE AA- (SO); 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 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.	Debentures-Non Convertible Debentures	LT	180.00	CARE AA-(SO); Stable	-	1)CARE AA (SO); Stable (26-Dec-17)	1)CARE AA (SO); Stable (30-Dec-16) 2)CARE AA (SO) (04-Nov-16)	1)CARE AA (SO) (21-Aug-15) 2)Provisional CARE AA (SO) (29-May-15)
2.	Debentures-Non Convertible Debentures	LT	125.00	CARE AA-(SO); Stable	-	1)CARE AA (SO); Stable (26-Dec-17)	1)CARE AA (SO); Stable (30-Dec-16) 2)CARE AA (SO) (04-Nov-16)	1)CARE AA (SO) (23-Oct-15) 2)Provisional CARE AA (SO) (21-Aug-15)
3.	Debentures-Non Convertible Debentures	LT	125.00	CARE AA-(SO); Stable	-	1)CARE AA (SO); Stable (26-Dec-17)	1)CARE AA (SO); Stable (30-Dec-16) 2)CARE AA (SO) (04-Nov-16) 3)CARE AA (SO) (02-May-16)	1)Provisional CARE AA (SO) (21-Aug-15)
4.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA-(SO); Stable	-	1)CARE AA (SO); Stable (26-Dec-17)	1)CARE AA (SO); Stable (30-Dec-16) 2)Provisional CARE AA (SO) (04-Nov-16)	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@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