October 06, 2021 (Revised)

The Ramco Cements Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures (NCD)	900.00	790.00	[ICRA]AA+ (Stable); reaffirmed
Term loan	1915.00	2427.00	[ICRA]AA+ (Stable); reaffirmed
Long-term fund based	735.00	905.00	[ICRA]AA+ (Stable); reaffirmed
Short-term fund based	250.00	430.00	[ICRA]A1+; reaffirmed
Short-term non-fund based	485.00	250.00	[ICRA]A1+; reaffirmed
Commercial paper	900.00	900.00	[ICRA]A1+; reaffirmed
Long-term unallocated	185.00	0.00	-
Total	**5370.00**	**5702.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation of The Ramco Cements Limited (TRCL/ the company) considers the strong business profile, with a healthy market share in the south India cement market, and its expanding presence in the eastern markets over the last few years. ICRA positively factors in the expected revenue growth in the company's eastern region over the medium term, backed by the recently commissioned clinker and grinding capacities and the upcoming capacities at Kurnool. The company's operating income (OI) witnessed 8% CAGR during FY2016-FY2021, backed by an increase in volumes at 7% CAGR and improvement in realisations. Despite the decrease in cement sales volume by 11% to 10 MTPA in FY2021 due to the impact of Covid-19 pandemic, the revenue declined by 2% YoY in FY2021 because of healthy improvement in net realisations. In Q1FY2022, the company reported 18% YoY revenue growth due to increase in sales volumes by 13% YoY and net sales realisations by 5%. While the company witnessed sequential QoQ revenue decline in Q1 FY2022 due to the second wave of the pandemic, which was severe in southern states, resulting in relatively weak demand, the revenues are likely to report an increase by 14%-16% in FY2022 supported by the pent-up demand, rural housing demand and the pick-up in the infrastructure activity. The Government's thrust on the affordable housing and the infrastructure segments is a positive from the long-term demand perspective. TRCL has strong operational efficiencies and has reported one of the highest OPBITDA/MT of Rs. 1,560 among the peers; the operating margin was 30% in FY2021 as compared to 22% in FY2020. While the OPBIDTA/MT continues to remain healthy at Rs. 1,728 in Q1FY2022, supported by higher net sales realisations because of the elevated input costs, the sustainability of the same remains to be seen. The ratings take comfort from the exceptional financial flexibility enjoyed by the company from lenders/investors.

The company has incurred significant capex of around Rs. 3700 crore during FY2020 to FY2021 and is expected to incur capex of around Rs. 1500-1600 crore in FY2022 and FY2023, predominantly for its capacity expansion projects to cater to newer geographies. The company has set up two grinding units through brownfield expansion (total 2.1 million tonne capacity) in FY2020 and one new greenfield grinding unit in Odisha with 0.9 million tonnes capacity in FY2021. TRCL is also expanding its clinker capacities through a brownfield capacity at Jayanthipuram plant (commissioned in Q1 FY2022) and a greenfield plant at Kurnool in Andhra Pradesh is expected to be operational in Q3FY2022 (total 3.75 million tonnes capacity) to support additional clinker requirements and expansion into newer market. Due to high debt-funded capex, TRCL's net debt/OPBDITA stood at moderate level of 1.9x in FY2021 and is expected to remain at same level in FY2022. The ramp-up of recently commissioned capacities and the improvement in utilisation of existing facilities remain important to improve the company's return indicators.

Although TRCL has been gradually expanding its presence in the Orissa and West Bengal markets over the last few years, partly by setting up grinding units closer to these markets, the proportion of revenues remain skewed towards the southern part of the country. The company derives about 75% of its revenues from the five southern states, which exposes it to region-specific demand risks. The expected higher penetration in Orissa and West Bengal and its entry into new markets like Maharashtra are likely to aid in diversification.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that TRCL's credit profile will be supported by its strong operational profile, healthy margins and exceptional financial flexibility enjoyed by the company.

Key rating drivers and their description

Credit strengths

Strong market position in southern region; increasing penetration in eastern India – The Ramco brand is prominent in South India, along with other cement brands such as Ultratech, Dalmia, Chettinad and Coromandel. The company continues to maintain a healthy market share in the southern region and has been expanding its presence in the eastern region. ICRA positively factors in the expected growth revenues from the company's eastern region over the medium term, backed by the recently commissioned clinker and grinding capacities and the upcoming capacities at Kurnool.

Strong operational efficiencies – The company's OI witnessed 8% CAGR during FY2016-FY2021, backed by an increase in volumes at 7% CAGR and improvement in realisations. Despite a decrease in cement sales volume by 11% to 10 MTPA in FY2021 due to the impact of the Covid-19 pandemic, the revenue declined by 2% YoY in FY2021, because of healthy improvement in net realisations. In Q1FY2022, the company reported 18% YoY revenue growth due to increase in sales volumes by 13% YoY and net sales realisations by 5%. While the company witnessed sequential QoQ decline in revenues in Q1FY2022 due to the second wave of pandemic, which was severe in southern states, resulting in relatively weak demand, the revenues are likely to report an increase by 14%-16% in FY2022 supported by the pent-up demand, rural housing demand and the pick-up in the infrastructure activity. The Government's thrust on the affordable housing and the infrastructure segments is a positive from the long-term demand perspective. TRCL has strong operational efficiencies and has reported one of the highest OPBITDA/MT of Rs. 1,560 among the peers and an operating margin of 30% in FY2021 as compared to 22% in FY2020. While the OPBIDTA/MT continues to be healthy at Rs. 1,728 in Q1FY2022 supported by higher net sales realisations, given the elevated input costs, the sustainability of the same remains to be seen.

Exceptional financial flexibility – ICRA favourably factors in the lender/investor comfort enjoyed by the company. TRCL had undrawn term loans of Rs. 750 crore as on September 30, 2021. The company's recent borrowings were tied-up at relatively competitive interest rates of 3.6% p.a. for its 90-day commercial paper, 5.5% coupon for NCDs and 5.25% p.a. for term loans.

Credit challenges

Capex underway – ramp up of the recently commissioned capacities critical to improve return indicators – The company has incurred significant capex of around Rs. 3700 crore during FY2020 to FY2021 and is expected to incur capex of around Rs. 1500-1600 crore in FY2022 and FY2023, predominantly for its capacity expansion projects to cater to newer geographies. The company has set up two grinding units through brownfield expansion (total 2.1 million tonne capacity) in FY2020 and one new greenfield grinding unit in Odisha with 0.9 million tonnes capacity in FY2021. TRCL is also expanding its clinker capacities through a brownfield capacity at Jayanthipuram plant (commissioned in Q1 FY2022) and another greenfield plant at Kurnool in Andhra Pradesh is expected to be operational in Q3FY2022 (total 3.75 million tonnes capacity) to support additional clinker requirements and expand into newer market. Due to high debt-funded capex, TRCL's net debt/OPBDITA stood at moderate level of 1.9x in FY2021 and is expected to remain at same level in FY2022. The ramp-up of recently commissioned capacities and the improvement in utilisation of existing facilities remain important to improve the company's return indicators.

High geographic concentration in South India – Although TRCL has been gradually expanding its presence in the Orissa and West Bengal markets over the last few years, partly by setting up grinding units closer to these markets, the proportion of revenues remains skewed towards the southern part of the country. The company derives about 75% of its revenues from the five southern states, which exposes it to region-specific demand risks. The expected higher penetration in Orissa and West Bengal, and entry into new markets like Maharashtra, is likely to aid in diversification.

Vulnerability of revenues to cyclicality in economy; susceptibility of profitability to fluctuations in input prices – TRCL 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 capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, TRCL's operating profitability remains susceptible to fluctuations in input prices. Given the elevated prices of coal and pet coke, the company's profitability is likely to remain under pressure in the near term.

Liquidity position: Adequate

TRCL's liquidity position is adequate, with unencumbered cash balance of Rs. 111.4 crore as on March 31, 2021 and cushion of Rs. 350 crore in the fund-based working capital limits. The average working capital utilisation as a percentage of drawing power stood at 70% for the period August 2020 – July 2021. The company incurred capex of Rs. 397 crore in Q1FY2022 and is expected to incur capex of Rs. 1000-1050 crore in FY2022. As on September 30, 2021, the company has undrawn term loans of Rs. 750 crore. TRCL has repayment obligations of around Rs. 617 crore for FY2022, which can be comfortably serviced through estimated cash flow from operations. The company's liquidity position is expected to remain adequate over the medium term, supported by its strong operational profile and margins. Moreover, the and exceptional financial flexibility and lender/investor comfort are likely to continue going forward.

Rating sensitivities

Positive factors – TRCL's long-term rating can be upgraded if the company is significantly able to improve its revenues while maintaining healthy operating margins, resulting in improvement in debt protection metrics and return indicators on a sustained basis. Specific credit metrics that could lead to a rating upgrade is Net Debt/EBITDA of less than 1.0x on a sustained basis.

Negative factors – Negative pressure on TRCL's ratings could emerge with sharp deterioration in earnings or significant rise in net debt on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for cement companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidation; please refer Annexure 2 for the list of entities considered for consolidated analysis

About the company

The Ramco Cements Limited (TRCL) is a reputed cement manufacturer in India and markets its products under the Ramco brand. TRCL has an aggregate installed cement capacity of 12.49 million tonne per annum, spread across five facilities in Tamil Nadu, Andhra Pradesh and Karnataka. It has an additional grinding capacity of 7.2 million tonne in South/East India. TRCL has captive thermal and windmill capacities of 175 MW and 125.95 MW, respectively. The company also has two modest-scale subsidiaries, Ramco Windfarms Limited (with a 39-MW windmill capacity) and Ramco Industrial and Technology Services Limited (which is into transport services, manpower services and IT).

The company is one of the flagship companies of the larger Ramco Group founded in 1938 by Late P.A.C Ramasamy Raja and is at present managed by his grandson, Mr. P R Venketrama Raja. The Ramco Group has interests in textiles, fibre cement sheets and information technology and is represented by key companies such as Ramco Industries Limited (rated [ICRA]AA-/Stable/[ICRA]A1+), Ramco Systems Limited (rated [ICRA]A/Stable/[ICRA]A2+) and Rajapalayam Mills Limited.

Key financial indicators (audited)

HIL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	5389.3	5291.0
PAT (Rs. crore)	604.4	763.6
OPBDIT/OI (%)	22.0%	30.0%
PAT/OI (%)	11.2%	14.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0
Total Debt/OPBDIT (times)	2.6	2.0
Interest Coverage (times)	16.1	18.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020			Date & Rating in FY2019		
					Oct-6-2021	**Dec-18-2020**	**Oct-6-2020**	**Sep-23-2020**	**Nov-26-2019**	**Nov-8-2019**	**Jul-30-2019**	**Mar-26-2019**	**Oct-3-2018**	**May-23-2018**
1	Term loans	Long-term	2427.00	2427.00	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**
2	Long-term fund based	Long-term	905.00	-	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**
3	Short-term fund based	Short-term	430.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	Short-term non-fund based	Short-term	250.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
5	Commercial paper	Short-term	900.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
6	Non-Convertible Debentures	Long-term	790.00	790.00	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	-	-	-	-	-
7	Long-term unallocated	Long-term	-	-	-	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	-	-	-	-	-	**[ICRA]AA+ (Stable) Withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long-term fund based	Simple
Short-term fund based	Simple
Short-term non-fund based	Very Simple
Commercial paper	Very Simple
Non-Convertible Debentures	Very simple
Long-term unallocated	NA

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
HDFC Bank	Term loans	FY2018	6.0%	FY2026	916.00	[ICRA]AA+ (Stable)
HSBC Bank	Term loans	FY2018	6.0%	FY2026	733.00	[ICRA]AA+ (Stable)
Axis Bank	Term loans	FY2018	6.0%	FY2026	350.00	[ICRA]AA+ (Stable)
Kotak Mahindra Bank	Term loans	FY2018	6.0%	FY2026	300.00	[ICRA]AA+ (Stable)
Federal Bank	Term loans	FY2018	6.0%	FY2026	128.00	[ICRA]AA+ (Stable)
HDFC Bank	Long-term fund based	-	-	-	200.00	[ICRA]AA+ (Stable)
RBL Bank	Long-term fund based	-	-	-	200.00	[ICRA]AA+ (Stable)
IDFC Bank	Long-term fund based	-	-	-	150.00	[ICRA]AA+ (Stable)
IDBI Bank	Long-term fund based	-	-	-	150.00	[ICRA]AA+ (Stable)
Canara Bank	Long-term fund based	-	-	-	100.00	[ICRA]AA+ (Stable)
Federal Bank	Long-term fund based	-	-	-	50.00	[ICRA]AA+ (Stable)
Standard Chartered Bank	Long-term fund based	-	-	-	30.00	[ICRA]AA+ (Stable)
Kotak Mahindra Bank	Long-term fund based	-	-	-	25.00	[ICRA]AA+ (Stable)
Federal Bank	Short-term fund based	-	-	-	150.00	[ICRA]A1+
ICICI Bank	Short-term fund based	-	-	-	135.00	[ICRA]A1+
Kotak Mahindra Bank	Short-term fund based	-	-	-	100.00	[ICRA]A1+
HSBC Bank	Short-term fund based	-	-	-	25.00	[ICRA]A1+
Standard Chartered Bank	Short-term fund based	-	-	-	20.00	[ICRA]A1+
Kotak Mahindra Bank	Short-term non-fund based	-	-	-	175.00	[ICRA]A1+
HDFC Bank	Short-term non-fund based	-	-	-	75.00	[ICRA]A1+
NA	Commercial paper*	-	-	-	900.00	[ICRA]A1+
NA	Non-Convertible Debentures*	-	-	-	100.00	[ICRA]AA+ (Stable)
INE331A07257	Non-Convertible Debentures	Feb-2021	5.5%	Apr-2023	100.00	[ICRA]AA+ (Stable)
INE331A07208	Non-Convertible Debentures	Dec-2019	7.25%	Dec-2021	195.00	[ICRA]AA+ (Stable)
INE331A07216	Non-Convertible Debentures	Feb-2020	7.0%	May-2023	100.00	[ICRA]AA+ (Stable)
INE331A07224	Non-Convertible Debentures	Feb-2020	7.25%	Aug-2022	100.00	[ICRA]AA+ (Stable)
INE331A07240	Non-Convertible Debentures	Nov-2020	5.5%	May-2024	195.00	[ICRA]AA+ (Stable)

Source: *TRCL; *unlisted; *yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	HIL Ownership	Consolidation Approach
Ramco Industrial and Technology Services Limited – Subsidiary	94.11%	Full Consolidation
Ramco Windfarms Limited – Subsidiary	71.50%	Full Consolidation
Lynks Logistics Limited - Associate	41.63%	Equity Method
Madurai Trans Carrier Limited - Associate	29.86%	Equity Method
Ramco Systems Limited - Associate	17.64%	Equity Method

Company Name	HIL Ownership	Consolidation Approach
Ramco Industries Limited - Associate	15.43%	Equity Method
Rajapalayam Mills Limited - Associate	0.35%	Equity Method

Source: *TRCL*

Note: *ICRA has considered the consolidated financials of The Ramco Cements Limited, its subsidiaries and associates while assigning the ratings.*

Corrigendum

Details of lenders have been updated in Annexure 1

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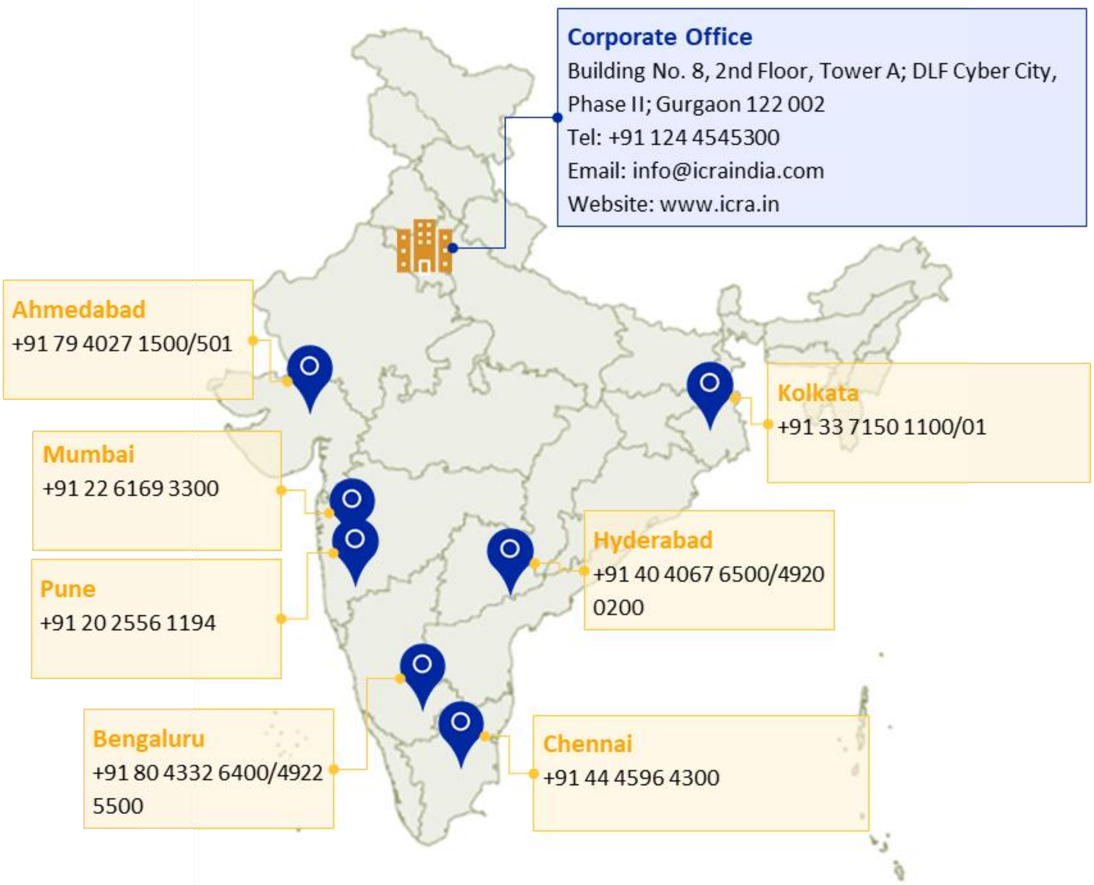

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