February 25, 2022

The Ramco Cements Limited: Ratings reaffirmed; [ICRA]AA+ (Stable) assigned for the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures (NCD)	790.00	790.00	[ICRA]AA+ (Stable); reaffirmed
Non-Convertible Debentures (NCD)	-	200.00	[ICRA]AA+ (Stable); assigned
Term loan	2427.00	2927.00	[ICRA]AA+ (Stable); reaffirmed/assigned
Long term fund based	905.00	905.00	[ICRA]AA+ (Stable); reaffirmed
Short-term fund based	430.00	430.00	[ICRA]A1+; reaffirmed
Short-term non-fund based	250.00	250.00	[ICRA]A1+; reaffirmed
Commercial paper	900.00	900.00	[ICRA]A1+; reaffirmed
Total	**5702.00**	**6402.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in The Ramco Cements Limited’s (TRCL) strong business profile, backed by a healthy market share in South India, and its expanding presence in the eastern markets over the last few years. ICRA positively factors in the company’s expected revenue growth from the eastern region over the medium term, backed by the recently commissioned clinker and grinding capacities. The company’s operating income (OI) witnessed 8% CAGR during FY2016-FY2021, led by an increase in volumes at 7% CAGR. TRCL’s OI is expected to increase by 14-17% in FY2022 supported by a low base effect, rural housing demand and pick-up in infrastructure activities. The Government’s push for affordable housing and focus on infrastructure are positive factors from the long-term demand perspective.

TRCL has strong operational efficiencies and reported one of the highest OPBITDA/MT of Rs. 1,582/MT among the peers and an operating margin of 30.0% in FY2021 (PY:22.0% in FY2020). The company’s OPBIDTA/MT declined by 22.6% YoY to Rs.1,285/MT in 9MFY2022 owing to a significant increase in power and fuel costs along with moderation in the net sales realisations in Q3 FY2022 (reported OPBIDTA/MT of Rs. 790/MT in Q3FY2022). The pressure on operating profits is likely to continue till Q1FY2023 and improve thereafter with the expected easing of cost side pressures.

The company is likely to incur capital expenditure (capex) around Rs. 1600 crore in FY2022 (incurred Rs. 1387 crore in 9M FY2022), higher than ICRA expectations. Increased capex amid drop in earnings in the current fiscal resulted in higher-than-anticipated debt levels. As a result, the net debt/OPBIDTA is likely to remain elevated at around 3.0 times as of March 2022. However, reduction in interest rates and relatively longer tenure for new debt is expected to support the debt coverage metrics. The ratings take comfort from the company’s exceptional financial flexibility. Further, TRCL is planning to incur around Rs. 1200 crore during FY2023-FY2024, primarily for its capacity expansion projects to cater to newer geographies which will be largely funded through internal accruals. The net debt/OPBIDTA is expected to improve to around 2.0 times by FY2024. Further, the additional capex will support the earnings growth in the medium to long term. 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 southern India. The company derives about 75% of its revenues from the five southern states, which exposes it to region-specific demand risks. The expected increased 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 and the exceptional financial flexibility.

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 eastern India. ICRA positively factors in TRCL's expected revenue growth from eastern region over the medium term, backed by the recently commissioned clinker and grinding capacities

Strong operational efficiencies: The company's OI witnessed 8% CAGR during FY2016-FY2021, led by an increase in volumes at 7% CAGR. TRCL's OI is expected to increase by 14-17% in FY2022 supported by a low base effect, rural housing demand and pick-up in infrastructure activities. The Government's push for affordable housing and focus on the infrastructure segments are positive factors from the long-term demand perspective. TRCL has strong operational efficiencies reflected in integrated cement plants with a capacity of 12.20 MTPA and access to limestone mines along with the split-grinding unit of 7.20 MTPA to optimise the freight costs. Further, the company has captive thermal capacity of 175 MW, windmill capacities of 166 MW (including subsidiaries) and WHRS capacity of 18 MW which cater to its power requirements.

The company's OPBIDTA/MT declined by 22.6% YoY to Rs. 1285/MT in 9MFY2022 owing to a significant increase in power and fuel costs along with moderation in the net sales realisations in Q3 FY2022 (reported OPBIDTA/MT of Rs. 790/MT in Q3FY2022). The pressure on operating profits is likely to continue till Q1FY2023 and improve thereafter with the expected easing of cost-side pressures.

Exceptional financial flexibility: ICRA favourably factors in the company's exceptional financial flexibility. TRCL had undrawn term loans of Rs. 252.3 crore as on December 31, 2021 and is likely to tie-up incremental debt of Rs. 500 crore in Q4 FY2022. The company's recent borrowings were raised at relatively competitive interest rates of 3.8% p.a. for its 60-day commercial paper, 5.25-5.35% p.a. for term loans and 5.50% - 7.00% for NCDs.

Credit challenges

Capex underway; ramp up of recently commissioned capacities critical to improve return indicators: The company is likely to incur capex of around Rs. 1600 crore in FY2022 (incurred Rs. 1387 crore in 9M FY2022), which is higher than ICRA's expectations. Increased capex amidst drop in earnings in current fiscal resulted in higher- than- anticipated debt levels. TRCL has expanded its clinker capacities through a brownfield capacity at its Jayanthipuram plant (commissioned in Q1 FY2022). Further the greenfield capex at Kurnool in Andhra Pradesh is expected to be operational in Q1FY2023 to support additional clinker requirements and expand into newer markets. As a result, net debt/OPBIDTA is likely to remain elevated at around 3.0 times as of March 2022. However, reduction in interest rates and relatively longer tenure for new debt is expected to support the debt coverage metrics. Further, TRCL is planning to incur around Rs. 1200 crore during FY2023-FY2024, primarily for its capacity expansion projects to cater to newer geographies which will be largely funded through internal accruals. The net debt/OPBIDTA is expected to improve to around 2.0 times by FY2024. Further, the additional capex will support the earnings growth in the medium to long term. The ramp-up of recently commissioned capacities and the improvement in utilisation of existing facilities remain important to improve the company's return indicators.

Increased 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 southern India. The company derives about 75% of its revenues from the five southern states, which exposes it to region-specific demand risks. The expected increased 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: 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. 65.67 crore as on December 31, 2021. The average working capital utilisation as a percentage of drawing power was at 68% during December 2020 – December 2021. The company incurred capex of Rs. 1387 crore in 9MFY2022 and is expected to incur Rs. 225 crore in Q4FY2022. Further, it has capex plans of around Rs. 1200 crore over the next two years with limited dependence on debt funding. As on December 31, 2021, the company has undrawn term loans of Rs. 252.31 crore. TRCL has repayment obligations of Rs. 135.0 crore in Q4FY2022 and Rs.838.6 crore in FY2023 which can be comfortably met through cash flows from operations. The company's liquidity position is expected to remain adequate over the medium term, supported by its strong operational profile and exceptional financial flexibility.

Rating sensitivities

Positive factors – ICRA may upgrade TRCL's long-term rating if it is significantly able to improve its revenues while maintaining healthy operating margins, resulting in an 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 1.0 times on a sustained basis

Negative factors – Pressure on TRCL's ratings could emerge with sharp deterioration in earnings or significant rise in net debt on a sustained basis. Specific credit metrics that could exert downward pressure on the rating include net debt/ EBITDA greater than 2.25x times 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 integrated cement capacity of 12.20 million tonne per annum, across four facilities in Tamil Nadu and Andhra Pradesh. It has an additional grinding capacity of 7.2 million tonnes 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)

TRCL	FY2020	FY2021	9MFY2022^
Operating Income (Rs. crore)	5389.3	5291.0	4290.3
PAT (Rs. crore)	604.4	763.6	769.6
OPBDIT/OI (%)	22.0%	30.0%	23.8%
PAT/OI (%)	11.2%	14.4%	17.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0	0.9
Total Debt/OPBDIT (times)	2.6	2.0	2.8
Interest Coverage (times)	16.1	18.0	12.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2022)			Chronology of Rating History for the past 3 years									
				Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020			Date & Rating in FY2019		
					Feb-25-2022	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	2927.00	2437.1	[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)	[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)	[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+	[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+	[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+	[ICRA]A1+
6	Non-Convertible Debentures	Long-term	790.00	595.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-	-
7	Non-Convertible Debentures	Long-term	200.00	-	[ICRA]AA+ (Stable)	-	-	-	-	-	-	-	-	-	-
8	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

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: www.icra.in

Annexure-1: Instrument details

	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loans	FY2018	5.6%	FY2026	2927.0	[ICRA]AA+ (Stable)
-	Long-term fund based	-	-	-	905.0	[ICRA]AA+ (Stable)
-	Short-term fund based	-	-	-	430.0	[ICRA]A1+
-	Short-term non-fund based	-	-	-	250.0	[ICRA]A1+
INE331A14LS3	Commercial paper	-	-	-	100.0	[ICRA]A1+
INE331A14LR5	Commercial paper	-	-	-	100.0	[ICRA]A1+
INE331A14LU9	Commercial paper	-	-	-	100.0	[ICRA]A1+
INE331A14LT1	Commercial paper	-	-	-	50.0	[ICRA]A1+
INE331A14LW5	Commercial paper	-	-	-	100.0	[ICRA]A1+
INE331A14LV7	Commercial paper	-	-	-	100.0	[ICRA]A1+
INE331A14LY1	Commercial paper	-	-	-	50.0	[ICRA]A1+
INE331A14LX3	Commercial paper	-	-	-	125.0	[ICRA]A1+
NA	Commercial paper*	-	-	-	175.0	[ICRA]A1+
NA	Non-convertible Debentures*	-	-	-	300.0	[ICRA]AA+ (Stable)
INE331A07216	Non-Convertible Debentures^	Dec-2019	7.25%	Dec-2021	95.00	[ICRA]AA+ (Stable)
INE331A07224	Non-Convertible Debentures	Feb-2020	6.9%	Aug-2022	100.00	[ICRA]AA+ (Stable)
INE331AO7232	Non-Convertible Debentures	Feb-2020	7.00%	May-2023	100.00	[ICRA]AA+ (Stable)
INE331A07240	Non-Convertible Debentures	Nov-2020	5.5%	May-2024	195.00	[ICRA]AA+ (Stable)
INE331A07257	Non-Convertible Debentures	Feb-2021	5.5%	Feb-2023	100.00	[ICRA]AA+ (Stable)
INE331A07257	Non-Convertible Debentures	Feb-2021	5.5%	Apr-2023	100.00	[ICRA]AA+ (Stable)

Source: *Company; *Yet to be placed; ^NCD has been redeemed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	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
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*

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Vishal R
+91 80 4922 5500
vishal.r@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3304
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.

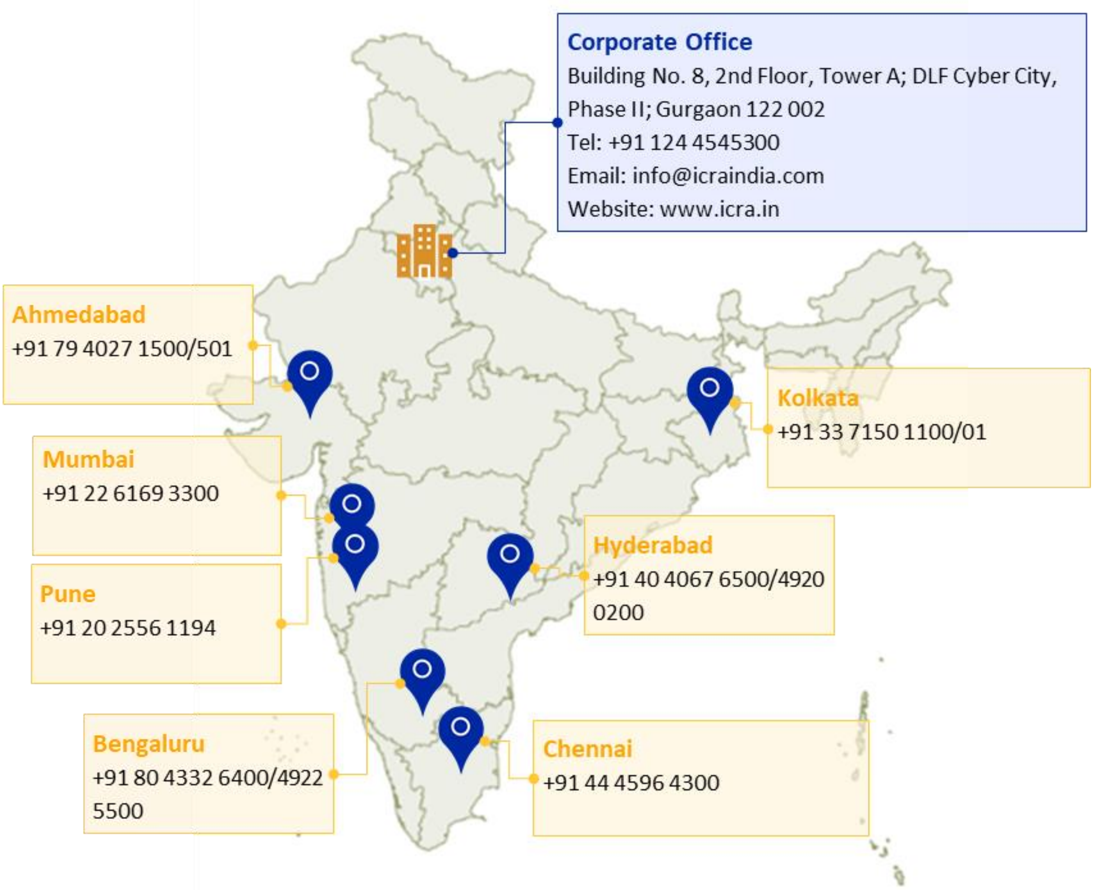
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.