September 30, 2022

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 debenture (NCD)	990.00	990.00	[ICRA]AA+ (Stable); reaffirmed
Term loan	2927.00	3379.13	[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
Unallocated limits	-	548.87	[ICRA]AA+ (Stable); assigned
Total	**6402.00**	**7403.00**	

**Instrument details are provided in Annexure-I*

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 TRCL's expected revenue growth from the eastern region over the medium term, supported by the likely ramp-up of the grinding capacities. The company's operating income (OI) witnessed 8% CAGR during FY2018-FY2022, led by an increase in volumes at 4% CAGR and the OI improved by 13% YoY in FY2022 supported by growth in volume and realization, along with low base effect. Further, the company's OI improved by 44% YoY to Rs. 1779.4 crore in Q1FY2023 on the back of low base effect and improved demand and is likely to improve by 18- 20% in FY2023, driven largely by expected volumetric growth supported by the healthy demand from housing and infrastructure sectors. Further, TRCL has strong operational efficiencies reflected in integrated cement plants with a capacity of 12.20 MTPA, access to limestone mines along with the split-grinding unit of 7.20 MTPA to optimise the freight costs and has a captive thermal capacity of 175 MW, windmill capacities of 166 MW (including subsidiaries) and WHRS capacity of 27 MW as on March 31, 2022, which cater to its power requirements.

The company's OPBIDTA/MT declined by 25% YoY to Rs. 1,190/MT in FY2022 and 47% YoY to Rs. 929/MT in Q1 FY2023 owing to a significant increase in power and fuel costs. The pressure on OPBIDTA/MT is likely to continue till Q3 FY2023 due to elevated input costs and improve thereafter with the expected easing of cost-side pressures.

The company is likely to incur a capex of around Rs. 1,000 crore in FY2023 (incurred Rs. 482 crore in Q1 FY2023), which is higher than ICRA's expectations due to an increase in the project cost of the Kurnool plant on account of revision in civil and mechanical works and elevated input material prices. Increased capex, amid drop in earnings in the current fiscal, is likely to result in higher-than anticipated debt levels. As a result, the net debt/OPBIDTA is estimated to remain elevated at around 3.0 times as of March 2023. Further, TRCL is planning to incur a capex of around Rs. 1,600 crore during FY2023-FY2024, primarily towards capacity expansion projects to cater to newer geographies, which will primarily be funded through Rs. 950 crore of debt and remaining Rs. 650 crore through internal accruals. The net debt/OPBIDTA is expected to improve to around 2.0-2.2 times by FY2024. The additional capex will support growth in earnings over the medium to long term. The ramp-up of the recently commissioned capacities and the improvement in utilisation of the existing facilities remain important for improving the company's return indicators. Further, the ratings take comfort from its exceptional financial flexibility.

Although TRCL has been gradually expanding its presence in Orissa and West Bengal 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 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. ICRA positively factors in TRCL's expected revenue growth from the eastern region over the medium term, supported by the likely ramp-up of the grinding capacities.

Strong operational efficiencies – TRCL has strong operational efficiencies as 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 27 MW as on March 31, 2022, which cater to its power requirements and resulted in better OPBIDTA/MT in the past.

Exceptional financial flexibility – ICRA favourably factors in the company's exceptional financial flexibility. TRCL had undrawn term loans of Rs. 252.5 crore as of September 2022. The company's recent borrowings were raised at relatively competitive interest rates of 6.1% p.a. for its 60-day commercial paper, 5.25-5.35% p.a. for term loans and 6.9% for NCDs.

Favourable demand prospects – The company's OI witnessed 8% CAGR during FY2018-FY2022, led by an increase in volumes at 4% CAGR. Its OI improved by 13% YoY in FY2022, supported by growth in volume and realisation, along with low base effect. Further, the company's OI improved by 44% YoY to Rs. 1,779.4 crore in Q1 FY2023 and is likely to improve by 18- 20% in FY2023, primarily driven by volumetric growth and healthy demand from the housing and infrastructure sectors. The Government's push for affordable housing and focus on the infrastructure segments are positive factors from the long-term demand perspective.

Credit challenges

Muted earnings and higher-than-anticipated capex to result in higher reliance on debt – The company's net debt/OPBIDTA stood at 2.9 times in FY2022, against 1.9 times in FY2021 on the back of an increase in debt by 27% amid the ongoing capex plans and decline in operating profits due to higher input costs. It is likely to incur a capex of around Rs. 1,000 crore in FY2023 (incurred Rs. 482 crore in Q1 FY2023), which is higher than ICRA's expectations owing to increased project cost of the Kurnool plant on account of revision in civil and mechanical works and elevated in input material prices. As a result, the net debt/OPBIDTA is estimated to remain elevated at around 3.0 times as of March 2023. Further, TRCL is planning to incur a capex of around Rs. 1,600 crore during FY2023-FY2024, primarily towards capacity expansion projects to cater to newer geographies which will be primarily funded through Rs. 950 crore of debt and the remaining Rs. 650 crore through internal accruals. The net debt/OPBIDTA is expected to improve to around 2.0-2.2 times by FY2024.

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 newer 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

The company had unencumbered cash balance of Rs. 150.4 crore as on March 31, 2022 and its average working capital utilisation as a percentage of drawing power was 69% for the period January 2021 – April 2022. It has incurred a capex of Rs. 482 crore in Q1 FY2023 and is expected to incur a capex of Rs. 1600 crore in FY2023-24. TRCL has repayment obligation of Rs. 567.8 crore in FY2023, which can be comfortably serviced through its estimated cash flow from operations. The liquidity position is expected to remain adequate over the medium term, supported by its strong operational profile and margins, along with its exceptional financial flexibility and lender/investor comfort, which are likely to continue going forward.

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 basis. Specific credit metrics that could lead to a rating upgrade include Net Debt/EBITDA of less than 1.0 times on a sustained basis.

Negative factors – Pressure on TRCL's ratings could emerge if there is a sharp deterioration in earnings or a significant rise in net debt on a basis. Specific credit metrics that could exert downward pressure on the ratings include net debt/ EBITDA greater than 2.25 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 II 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 tonnes 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). It is one of the flagship companies of the larger Ramco Group founded in 1938 by the 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/Negative/[ICRA]A2+) and Rajapalayam Mills Limited.

Key financial indicators (audited)

TRCL	FY2021	FY2022
Operating income	5291.0	6003.7
PAT	763.6	892.9
OPBDIT/OI	30.0%	21.9%
PAT/OI	14.4%	14.9%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	2.0	3.0
Interest coverage (times)	18.0	11.7

Source: Company, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount 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 (FY2023)				Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sept 20, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021			Date & Rating in FY2020		
					Sept-30-2022	Feb-25-2022	Oct-6-2021	Dec-18-2020	Oct-6-2020	Sept-23-2020	Nov 26-2019	Nov-8-2019	July-30-2019
1	Term loans	Long-term	3379.13	2179.13	[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)
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+
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+
5	Commercial paper	Short-term	900.00	450.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Non-Convertible Debentures	Long-term	990.00	795.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
7	Long-term unallocated	Long-term	548.87	-	[ICRA]AA+ (Stable)	-	-	[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	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loans**	FY2018	5.2 – 6.1%	FY2028	3379.13	[ICRA]AA+(Stable)
NA	**Long term fund based**	-	-	-	905.0	[ICRA]AA+(Stable)
NA	**Short term fund based**	-	-	-	430.0	[ICRA]A1+
NA	**Short term non-fund based**	-	-	-	250.0	[ICRA]A1+
NA	**Long-term - Unallocated**	-	-	-	548.87	[ICRA]AA+(Stable)
INE331A14MN2	**Commercial Paper**	-	-	-	50.0	[ICRA]A1+
INE331A14MN2	**Commercial Paper**	-	-	-	50.0	[ICRA]A1+
INE331A13MQ5	**Commercial Paper**	-	-	-	100.0	[ICRA]A1+
INE331AA14MO0	**Commercial Paper**	-	-	-	150.0	[ICRA]A1+
INE331A14MP7	**Commercial Paper**	-	-	-	50.0	[ICRA]A1+
INE331A14MP7	**Commercial Paper**	-	-	-	50.0	[ICRA]A1+
-	**Commercial Paper***	-	-	-	450.0	[ICRA]A1+
INE331A07265	**Non-Convertible Debentures**	Mar-2022	6.9%	Dec-2026	150.0	[ICRA]AA+(Stable)
INE331A07273	**Non-Convertible Debentures**	Mar-2022	6.9%	Mar-2027	150.0	[ICRA]AA+(Stable)
INE331A07216	**Non-Convertible Debentures^**	Dec-2019	7.25%	Dec-2021	95.0	[ICRA]AA+(Stable)
INE331A07224	**Non-Convertible Debentures^**	Feb-2020	6.9%	Aug-2022	100.0	[ICRA]AA+(Stable)
INE331A07232	**Non-Convertible Debentures**	Feb-2020	7.0%	May-2023	100.0	[ICRA]AA+(Stable)
INE331A07240	**Non-Convertible Debentures**	Nov-2020	5.50%	May-2024	195.0	[ICRA]AA+(Stable)
INE331A07257	**Non-Convertible Debentures**	Feb-2021	5.5%	Feb-2023	200.0	[ICRA]AA+(Stable)

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

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

Annexure II: 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. ICRA has also evaluated the adjusted leverage and coverage metrics while including the debt of Madurai Trans Carrier Limited (MTCL, as MTCL has take-or-pay agreement with TRCL and 2 other entities) and Raja Charity Trust (as TRCL has given corporate guarantee).

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