December 08, 2023

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
Non-convertible debenture (NCD)	205.00	205.00	[ICRA]AA+ (Stable); reaffirmed
Term loans	3105.92	4531.00	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Long-term fund-based	885.00	885.00	[ICRA]AA+ (Stable); reaffirmed
Short-term fund-based	1210.00	1210.00	[ICRA]A1+; reaffirmed
Short-term proposed fund-based	-	400.00	[ICRA]A1+; assigned
Short-term non-fund based	235.0	235.00	[ICRA]A1+; reaffirmed
Commercial paper	900.00	900.00	[ICRA]A1+; reaffirmed
Unallocated limits	77.08	-	-
Total	**7608.00**	**9356.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for The Ramco Cements Limited (TRCL) considers its strong business profile, backed by a healthy market share in South India. The company has strong operational efficiencies arising out of the integrated nature of the plants, access to captive limestone mines, along with the split-grinding unit of 7.3 MTPA to optimise freight costs. It has a captive thermal capacity of 175 MW and green power of 206 MW (includes windmill capacities of 166 MW and WHRS capacity of 40 MW) as on March 31, 2023. TRCL's operating income (OI) witnessed a compounded annual growth rate (CAGR) of 12% during FY2019- FY2023, led by an increase in volumes at a CAGR of 7%. Further, the company's OI improved by 28% YoY to Rs. 4,587.2 crore in H1 FY2024. ICRA positively factors in the strong demand prospects for the sector, led by housing and infrastructure sectors. As a result, TRCL is estimated to witness 16-18% growth in OI in FY2024 and 8-10% in FY2025. The ratings take comfort from the exceptional financial flexibility enjoyed by the company with a demonstrated track record of raising/refinancing debt at competitive terms.

The OPBIDTA/MT improved to Rs. 854/MT in H1 FY2024 (Rs. 894/MT in Q2 FY2024) from Rs. 830/MT in FY2023 owing to moderation in power and fuel costs. The company's OPBIDTA/MT is expected to improve to Rs. 900-950/MT in FY2024 and is likely to increase to Rs. 950-1,000/MT in FY2025, backed by the moderation in the input costs and rise in the share of green power in total power consumption. The company's total debt/OPBIDTA improved to 3.4 times as of September 2023 against 3.7 times as of March 2023 on account of growth in operating profits, despite rise in debt by ~12% amid the ongoing capex plans. TRCL is estimated to incur a capex of around Rs. 3,100 crore in FY2024-FY2025 (H1 FY2024: Rs. 1224 crore), which is higher than ICRA's expectations (Rs. 1,500 crore). The capex is attributable to expansion in scope of works across few of its projects and acquisition of a limestone mine, which are likely to generate benefits over the long term. As a result, the total debt/OPBIDTA is estimated to remain elevated at around 3.1-3.2 times as of March 2024. The strong demand prospects mitigate offtake risks for the new capacities. This along with moderation in input prices provide comfort to TRCL's earnings profile in the near term. Consequently, the total debt/OPBIDTA is expected to improve gradually.

Although TRCL has been gradually expanding its presence in Orissa and West Bengal over the last few years, 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 increasing penetration in eastern markets, along with the planned foray into Maharashtra over the medium term are likely to aid in diversification.

TRCL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity addition by the players during such periods. Further, TRCL's operating profitability remains susceptible to fluctuations in input prices.

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 – 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.

Strong operational efficiencies – The company has strong operational efficiencies arising out of the integrated nature of the plants, access to captive limestone mines, along with the split-grinding unit of 7.3 MTPA to optimise the freight costs. It has a captive thermal capacity of 175 MW and green power of 206 MW (includes windmill capacities of 166 MW and WHRS capacity of 40 MW) as on March 31, 2023.

Favourable demand prospects and exceptional financial flexibility – ICRA positively factors in the strong demand prospects, led by housing and infrastructure sectors. TRCL's OI witnessed 12% CAGR during FY2019- FY2023, driven by growth in volumes at 7% CAGR. Further, the company's OI improved by 28% YoY to Rs. 4,587.2 crore in H1 FY2024. It is estimated to witness 16-18% growth in OI in FY2024 and 8-10% in FY2025. ICRA favourably factors in the exceptional financial flexibility enjoyed by the company with a demonstrated track record of raising/refinancing debt at competitive terms.

Credit challenges

Higher-than-anticipated debt-funded capex to keep leverage at elevated levels in near term –The company's total debt/OPBIDTA improved to 3.4 times as of September 2023 against 3.7 times as of March 2023 on account of improvement in operating profits, despite increase in debt by ~12% amid the ongoing capex plans. TRCL is estimated to incur a capex of around Rs. 3,100 crore in FY2024- FY2025 (H1 FY2024: Rs. 1,224 crore), which is higher than ICRA's expectations (Rs. 1,500 crore). The capex is attributable to expansion in scope of works across few of its projects and acquisition of a limestone mine, which are likely to generate benefits over the long term. As a result, the total debt/OPBIDTA is estimated to remain elevated at around 3.1-3.2 times as of March 2024. The strong demand prospects mitigate the offtake risks for the new capacities. This along with moderation in input prices provide comfort to TRCL's earnings profile in the near term. Consequently, the total debt/OPBIDTA is expected to improve gradually.

Geographical concentration in South India – Although TRCL has been gradually expanding its presence in Orissa and West Bengal over the last few years, 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 increasing penetration in eastern markets, along with the planned foray into Maharashtra over the medium term are 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 addition by the players during such periods. Further, TRCL's operating profitability remains susceptible to fluctuations in input prices.

Liquidity position: Adequate

TRCL's liquidity position is adequate with positive retained cash flows in the last several years. The company had unencumbered cash balance of Rs. 82.0 crore as on September 30, 2023 and its average working capital utilisation as a percentage of drawing power was 71% for 12 months ended August 2023. It has repayment obligation of Rs. 387 crore in FY2024 and Rs. 1,134 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations. The company is expected to incur capex of Rs. 3,100 crore in FY2024-FY2025 (H1 FY2024: Rs. 1,224 crore) funded through Rs. 1,950-crore long-term debt and the remaining from internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade TRCL's long-term rating if there is significant increase in scale of operations and improvement in operating margins, resulting in an improvement in debt protection metrics and return indicators on a sustained basis.

Negative factors – Pressure on TRCL's ratings could emerge if there is sharp deterioration in earnings or significant rise in debt levels impacting debt protection metrics 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	For arriving at the ratings, ICRA has considered the consolidated financials of TRCL. 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 14.7 million tonnes per annum, across five facilities in Tamil Nadu and Andhra Pradesh. It has an additional grinding capacity of 7.3 million tonnes in South/East India. About 75% of the company's revenues are derived from the four southern states. TRCL has captive thermal and windmill capacities of 175 MW and 126 MW, respectively. The company also has two modest-scale subsidiaries, Ramco Windfarms Limited (with a 40 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]BBB+/Negative/[ICRA]A2) and Rajapalayam Mills Limited.

Key financial indicators (audited)

TRCL	FY2022	FY2023	H1 FY2024*
Operating income	6,003.7	8,157.3	4,587.2
PAT	892.9	342.0	179.5
OPBDIT/OI	21.9%	15.1%	16.3%
PAT/OI	14.9%	4.2%	3.9%
Total outside liabilities/Tangible net worth (times)	1.0	1.1	1.2
Total debt/OPBDIT (times)	3.0	3.7	3.4

Interest coverage (times)	11.7	5.1	3.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *provisional*

Source: Company; ICRA Research

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 Oct 03, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021		
					Dec 08, 2023	Jun 16, 2023	Mar 13, 2023	Sep 30, 2022	Feb 25, 2022	Oct 06, 2021	Dec 18, 2020	Oct 06, 2020	Sep 23, 2020
1	Term loans	Long term	4531.0	4531.0	[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	885.0		[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	1210.0		[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	235.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial paper	Short term	900.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Non-convertible debentures	Long term	990.0		[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)
7	Non-convertible debentures	Long term	205.0		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-	-	-
8	Non-convertible debentures	Long term	-		-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable)	-	-	-	-	-	-
9	Long-term unallocated	Long term	-		-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
10	Short-term proposed fund-based	Short term	400.0		[ICRA]A1+	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	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
Proposed short-term fund-based	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: Click Here

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	8.1%	FY2028	4531.0	[ICRA]AA+ (Stable)
NA	Long-term fund-based	-	-	-	885.0	[ICRA]AA+ (Stable)
NA	Short-term fund-based	-	-	-	1210.0	[ICRA]A1+
NA	Short-term non-fund based	-	-	-	235.0	[ICRA]A1+
INE331A14NB5	Commercial papers	-	-	7-365 days	50.0	[ICRA]A1+
INE331A14NC3	Commercial papers	-	-	7-365 days	150.0	[ICRA]A1+
	Commercial papers*	-	-	7-365 days	700.0	[ICRA]A1+
INE331A07240	Non-convertible debentures	Nov-20	5.50%	May-24	195	[ICRA]AA+ (Stable)
INE331A07257	Non-convertible debentures^	Feb-21	5.50%	Apr-23	200	[ICRA]AA+ (Stable)
INE331A07265	Non-convertible debentures	Mar-22	6.90%	Dec-26	150	[ICRA]AA+ (Stable)
INE331A07273	Non-convertible debentures	Mar-22	6.90%	Mar-27	150	[ICRA]AA+ (Stable)
-	Non-convertible debentures*	-	-	-	500	[ICRA]AA+ (Stable)
NA	Short-term proposed fund-based	-	-	-	400.0	[ICRA]A1+

*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	RCL 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*	29.72%	Equity Method
Madurai Trans Carrier Limited – Associate	29.86%	Equity Method
Ramco Systems Limited – Associate	15.38%	Equity Method
Ramco Industries Limited – Associate	15.40%	Equity Method
Rajapalayam Mills Limited - Associate	0.46%	Equity Method

*Source: TRCL, ICRA Research; *associate till July 12, 2023*

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 take-or-pay agreement with TRCL and 2 other entities) and Raja Charity Trust (as TRCL has given corporate guarantee).

ANALYST CONTACTS

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

Anupama Reddy
+9140 4547 4829
anupama.reddy@icraindia.com

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

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

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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

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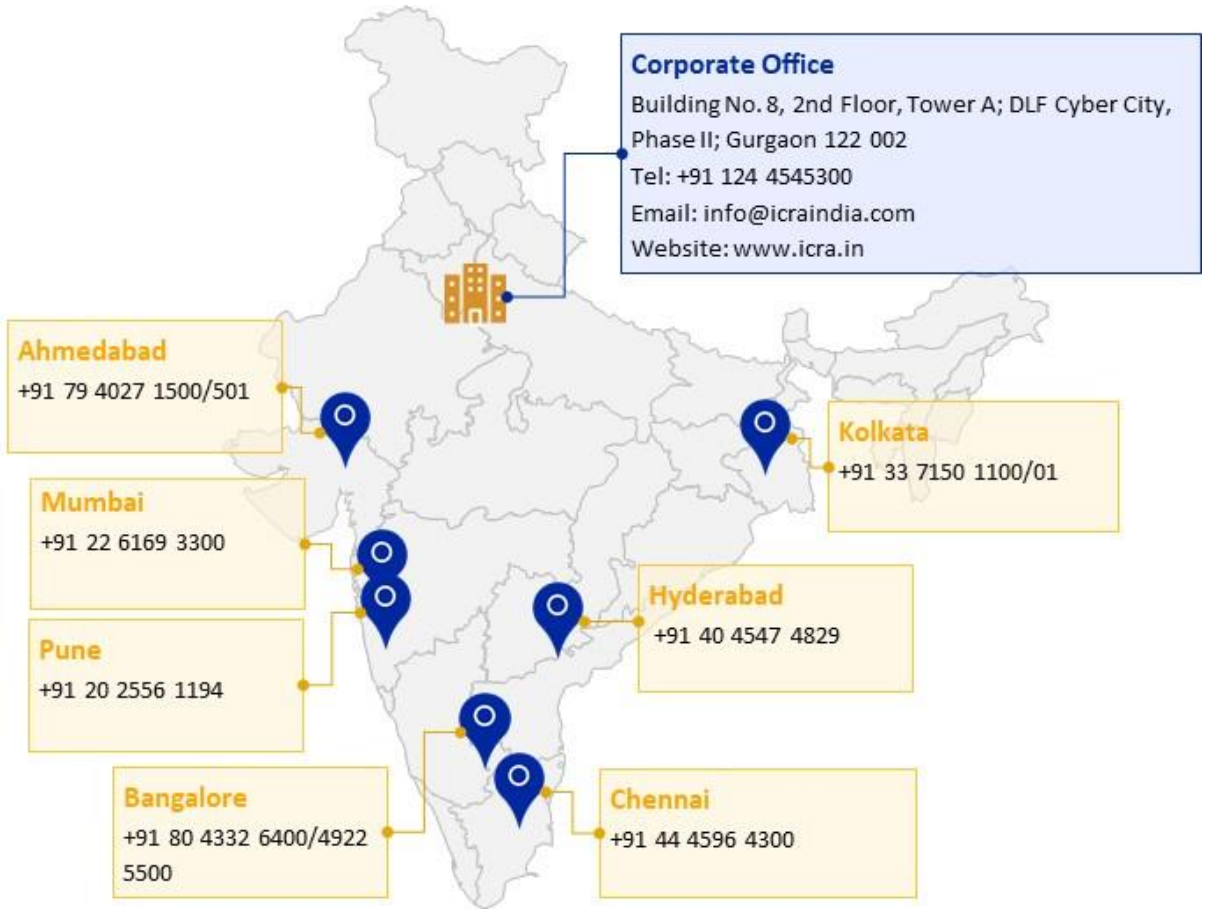
ICRA Limited

Registered Office

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

Branches



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