July 20, 2017

The Ramco Cements Limited

Summary of rated instruments

Instruments*	Rated amount (Rs. crore)	Rating action
Non-convertible debenture (NCD)	100.00 (revised from 300.00)	[ICRA]AA+ (Stable) reaffirmed
Long-term fund based facilities	700.00 (revised from 614.00)	[ICRA]AA+ (Stable) reaffirmed
Short-term fund based facilities	250.00 (revised from 600.00)	[ICRA]A1+ reaffirmed
Short-term non-fund based facilities	435.00 (revised from 449.00)	[ICRA]A1+ reaffirmed
Commercial paper	825.00 (enhanced from 742.00)	[ICRA]A1+ reaffirmed
Non-convertible debenture	200.00	[ICRA]AA+ (Stable) withdrawn
Term loan facilities	275.00	[ICRA]AA+ (Stable) withdrawn

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the rating outstanding on the Rs. 100.00 crore non-convertible debentures (revised from Rs. 300.00 crore) and the Rs. 700.00 crore long-term fund based facilities (revised from Rs. 614.00 crore) of The Ramco Cements Limited (TRCL/the company) at [ICRA]AA+ (pronounced ICRA double A plus). The outlook on the long-term rating is stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating for the Rs. 250.00 crore short-term fund based facilities (revised from Rs. 600.00 crore) and the Rs. 435.00 crore short-term non-fund based facilities (revised from Rs. 449.00 crore) of the company. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating outstanding on the Rs. 825.00 crore commercial paper programme of the company (enhanced from Rs. 742.00 crore).

ICRA has withdrawn the [ICRA]AA+ (Stable) rating outstanding on the Rs. 200.00 crore non-convertible debenture and the Rs. 275.00 crore term loan facilities of the company as these have been fully repaid and there is no amount outstanding against the rated instruments.

Rationale

The ratings remain supported by TRCL's strong market position in South India and the company's strong financial profile characterised by healthy margins and accruals, conservative debt metrics and comfortable liquidity. The ratings also positively factor in the financial flexibility enjoyed by the company by virtue of its parentage; and reduction in monetary support extended by the company to other group entities. The ratings are, however, constrained by risks arising from the company's geographic concentration and the weak outlook for the Tamil Nadu and Kerala markets for FY2018. Also, with the recent trend of increasing petcoke prices, the company's margins and operating profit per tonne (OPBDITA/tonne) of dispatch could moderate in FY2018. Nevertheless, the company's capital structure, coverage metrics and cash flows are expected to remain strong over the medium term, given the absence of debt-funded capex plans.

Key rating drivers

Credit strengths

- Strong market position in the Southern region, especially in Tamil Nadu and Kerala
- Operating efficiencies arising from beneficiation of limestone, captive power capacities/fuel cost optimization and relatively lower freight costs because of favourable plant/grinding locations have resulted in strong profit margins; improvement in most cost heads in FY2017
- Adequate cement capacities available for future growth; capex over the next three years limited to maintenance and greenfield grinding units closer to consumer markets
- Financial flexibility on account of established presence of the group; substantial reduction in guarantees given to group companies over the last few years
- Healthy revenue growth and accruals in FY2017; conservative capital structure and comfortable liquidity position
- No debt-funded capex plans in the pipeline for the next three years; debt metrics and cash flows to improve further during FY2018-20

Credit weaknesses

- Low geographic diversification with close to 80% of revenues from South India
- Weak FY2018 demand outlook for the Tamil Nadu and Kerala markets from where TRCL derives a large part of its revenues
- Increasing trend in petcoke prices could impact margins in FY2018

Description of key rating drivers:

The Ramco Cements Limited is the flagship company of the Tamil Nadu based Ramco group and is one of the leading cement players in the South Indian market. The company commands healthy business shares in the Kerala and Tamil Nadu markets. While TRCL currently derives over three-fourths of its revenues from the four southern states, the company is looking at gradually increasing its presence in the eastern part of India through higher penetration in West Bengal and Orissa.

The company has five integrated plants – three in Tamil Nadu, one in Andhra Pradesh and one in Karnataka - with aggregate cement manufacturing capacity of 12.5 million tonnes per annum; these plants are located close to captive limestone mines. Apart from this, TRCL has four grinding units in Tamil Nadu, Andhra Pradesh and West Bengal closer to the consumer markets. With sub 70% capacity utilization, the company has adequate capacities to accommodate volume growth over the next few years. TRCL is looking at adding further grinding capacities of about 3 million in Vizag, Orissa and West Bengal over the next three years, in a bid to reduce outbound logistic costs.

TRCL also has captive thermal and wind power plants which provide majority of the power required for the manufacturing operations. While the captive power and favourable location of plants/grinding units have been advantageous for power and freight costs, operational improvement activities such as beneficiation of limestone and freight/fuel optimization undertaken have aided in improving efficiencies.

TRCL posted a volume growth of 16% in FY2017 – aided by double digit growth in all markets except Tamil Nadu and Kerala. However, the drop in realizations by about 6% resulted in sub 10% growth in operating income during the year. Despite improvement across cost heads, the weaker realizations resulted in lower OPBDITA/Tonne of Rs. 1,465 in FY2017 compared to 1,541 in FY2016. Although there was a 70 bps dip in operating profit margin (OPM) in FY2017, it continues to remain strong at 30%+ levels. The net margins witnessed improvement, aided by lower debt levels and reduction in financing costs. The reduction in debt levels with no incremental borrowings in FY2017; and strong profits, have strengthened the company's capital structure and coverage metrics.

Going forward, while revenues for FY2018 could remain subdued given the weak outlook for the Tamil Nadu and Kerala markets, the profit margins could be impacted by higher fuel prices with increasing petcoke costs. Nevertheless, TRCL's profits are expected to remain strong. The company has about Rs. 1,450 crore of aggregate capex for FY2018-20 for maintenance activities and its proposed grinding facilities, to be funded through internal accruals. In the absence of additional borrowings and repayment of a large part of the long-term debt in FY2018, the company's capital structure and other debt metrics are expected to improve going forward.

TRCL financially supports its group companies and trusts in the form of guarantees for their borrowings. While the guarantees were over Rs. 500 crore as on March 31, 2014, these have gradually reduced year-on year. As on March 31, 2017, debt outstanding against the guarantees stood at Rs. 63.7 crore.

Table 1

Key financial indicators (Consolidated)	**FY2016**	**FY2017**
Operating income (OI, crore)	3,621.4	3,972.4
PAT (crore)	545.3	664.0
OPBDITA/ OI (%)	31.3%	30.6%
RoCE (%)	14.7%	16.7%
Total Debt/ TNW (times)	0.7	0.4
Total Debt/ OPBDITA (times)	1.9	1.2
Interest coverage (times)	6.1	11.5
NWC/ OI (%)	25.1%	23.3%

Source*: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit After Tax; RoCE: Return on Capital Employed;TNW: Tangible Net Worth; NWC: Net Working Capital*

Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has taken a consolidated view of TRCL and its subsidiary, Ramco Windfarms Limited.

Links to applicable criteria:
Corporate credit rating methodology
Rating methodology for cement companies

About the company:
The Ramco Cements Limited (TRCL/the company) is a reputed cement manufacturer in India and markets its products under the 'Ramco' brand. TRCL has an aggregate installed cement capacity of 12.5 million tonnes per annum spread across five facilities in Tamil Nadu, Andhra Pradesh and Karnataka and an additional grinding capacity of 4.0 million tonnes in South/East India. About 80% of the company's revenues in FY2017 were derived from the four southern states. TRCL has captive thermal and windmill capacities of 169 MW and 125.95 MW respectively. The company also has a subsidiary, Ramco Windfarms Limited, with a 39 MW windmill capacity.

The company belongs to the larger Ramco group founded in 1938 by Late Mr. P A C Ramasamy Raja and is presently 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 Rajapalayam Mills Limited (rated [ICRA]A-/Stable/[ICRA]A2+), Ramco Industries Limited (rated [ICRA]A+/Stable/[ICRA]A1+) and Ramco Systems Limited (rated [ICRA]A-/Stable/[ICRA]A2+).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table 2

S. No.	Instrument	Current rating (FY2018)			Chronology of Rating history for the past three years		
		Type	Amount rated (Rs. crore)	July 2017	Jun 2016	Jun 2015	Oct 2014
1	NCD	Long term	100.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2	Fund based	Long term	700.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
3	Fund based	Short term	250.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-fund based	Short term	435.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short term	825.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
<u>Instrument Details</u>

Instruments	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and Outlook
Non-convertible debenture	Oct 2015	8.55%	Oct 2017	100.00	[ICRA]AA+ (Stable)
Long- term fund based	-	-	-	700.00	[ICRA]AA+ (Stable)
Short-term fund based	-	-	-	250.00	[ICRA]A1+
Short-term non-fund based	-	-	-	435.00	[ICRA]A1+
Commercial Paper	-	-	-	825.00	[ICRA]A1+

Source: TRCL

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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.

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