The Ramco Cements Limited

October 03, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	150.00	250.00	[ICRA]AA+ (Stable) reaffirmed
Long-term fund based	700.00	700.00	
Short-term fund based	250.00	250.00	[ICRA]A1+ reaffirmed
Short-term non-fund based	435.00	435.00	
Commercial Paper	825.00	825.00	
Total	**2,360.00**	**2,460.00**	

*Instrument details in Annexure – I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs. 250.00 crore term loan facilities (enhanced from Rs. 150.00 crore) and the 700.00 crore long-term fund-based facilities of The Ramco Cements Limited (TRCL/the company). The outlook on the long-term rating is stable. ICRA has also reaffirmed the rating outstanding on the Rs. 250.00 crore short-term fund based facilities, the Rs. 435.00 crore short-term non-fund based facilities and the Rs. 825.00 crore commercial paper programme of the company at [ICRA]A1+ (pronounced ICRA A one plus).

Rationale

The reaffirmation of ratings draws comfort from TRCL's strong business profile and financial position. The company continues to have healthy market share in Kerala and Tamil Nadu and has been expanding its market share in the other regions where it is present. Further, TRCL's volumes have grown faster than the respective region growths in most geographies in FY2018 and Q1 FY2019. TRCL's financial position also remains strong with a gearing of 0.3 times and NCA/Total debt of 62.1% as on June 30, 2018; the interest coverage stood at 21.9 times for Q1 FY2019. The company's operating margins were weaker at 25.7% for FY2018 (as against 30.8% for FY2017) and 20.5% for Q1 FY2019 (as against 28.2% in Q1 FY2018), impacted by increase in petcoke prices and higher freight expenses, amidst muted realization growth. The OPBDITA/Tonne also moderated to Rs. 1,207 in FY2018 (as against Rs. 1,465 for FY2017) and Rs. 959 in Q1 FY2019 (as against Rs. 1,320 for Q1 FY2018). Despite the decline, TRCL's margins continue to remain strong.

Going forward, TRCL is likely to witness a higher-than-industry volume growth in FY2019 – supported by healthy growth across most markets except Kerala, and the demand is expected to sustain during FY2020 and FY2021 as well. ICRA also positively factors in the expected growth in TRCL's east India revenue pie over the medium term and the likely reduction in the concentration on South India (which is 70%+ currently) once the proposed grinding project expansions are completed. However, the OPBDITA/Tonne is likely to be under pressure in FY2019 given the anticipated subdued realization growth and higher petcoke prices in the near term, despite some saving in freight expenses because of company's strategic initiatives. Over the medium term, the favourable location of the upcoming grinding units should enable reduction in transit distance for the eastern markets, and consequent cost reductions. The company has a cumulative capex of Rs. 2,115 crore outlined for FY2019 to FY2021, primarily for its proposed capacity expansion projects to meet increasing demand; about 30% of this capex is likely to be debt-funded. With a major portion of the capex expected to be funded through internal accruals, TRCL's capital structure and coverage metrics are expected to remain comfortable over the medium term. Overall, ICRA expects TRCL's business and financial profile to remain strong going forward.

Outlook: Stable

The 'stable' outlook reflects TRCL will continue to maintain its well-entrenched market position in the cement industry and that its margins, debt metrics and liquidity position will continue to remain comfortable in the medium term. The outlook may be revised to 'positive' if there is substantial improvement in TRCL's scale and profitability, and debt levels reduce significantly. The outlook may be revised to 'negative' if the company's margins are weaker-than-expected, or if TRCL's debt increases significantly and there is deterioration in the company's liquidity position.

Key rating drivers

Credit strengths

Strong market position in the Southern region; increasing penetration in east India - The 'Ramco' brand is prominent in South India, along with other cement brands like Ultratech, Dalmia, Chettinad and Coromandel, to name a few. The company continues to have healthy market share in Kerala and Tamil Nadu. In the other markets it is present in, TRCL's market share has been improving, with better penetration. TRCL's volumes have grown faster than the respective region growths in most geographies in FY2018 and Q1 FY2019.

Healthy accruals, conservative capital structure and comfortable liquidity position – The company had net cash accruals of close to Rs. 800 crore for FY2018 and ~Rs. 200 crore in Q1 FY2019. In the absence of significant debt-funded capex in the last few years, TRCL's debt levels have remained relatively modest compared to the accruals. The company's capital structure stood at 0.3 times as of June 30, 2018 while its interest coverage was 21.9 times for Q1 FY2019. With minimal repayments and comfortable accrual levels going forward, ICRA expects TRCL's financial profile to remain strong in the near to medium term, despite the proposed capex.

Healthy FY2019 growth outlook for TRCL - ICRA expects the pan-India cement demand to grow at 6-7% in FY2019 driven by a pickup in the affordable/rural housing and infrastructure (primarily road and irrigation projects) segments. TRCL is likely to witness a 10%+ volume growth in FY2019 – higher than the industry growth - supported by healthy growth across most markets except Kerala. ICRA expects strong demand growth for TRCL during FY2020 and FY2021 as well, partly driven by volumes from the Orissa, West Bengal and Andhra Pradesh regions, post completion of the ongoing capacity expansion projects.

Credit weaknesses

Increasing trend in petcoke and diesel prices have moderated the OPBDITA/Tonne in FY2018 and Q1 FY2019; OPBDITA/Tonne to remain under pressure in FY2019 – The company's operating margin was weaker at 25.7% for FY2018 (as against 30.8% for FY2017) and 20.5% for Q1 FY2019 (as against 28.2% in Q1 FY2018), impacted by increase in petcoke prices and higher freight expenses, amidst muted realization growth. The OPBDITA/Tonne also moderated to Rs. 1,207 in FY2018 (as against Rs. 1,465 for FY2017) and Rs. 959 in Q1 FY2019 (as against Rs. 1,320 for Q1 FY2018). The reduction in net margins was lower, aided by improvement in interest expenses; the net margins were 12.7% for FY2018 (as against 16.5% for FY2017) and 10.2% for Q1 FY2019 (as against 15.1% for Q1 FY2018). Despite the decline, TRCL's margins continue to remain strong. While TRCL is looking at reduction in freight expenses, the OPBDITA/Tonne is likely to be under pressure in FY2019 given the anticipated subdued realization growth and higher petcoke prices in the near term. Over the medium term, the strategic location of the upcoming grinding units should enable reduction in lead distances for the eastern markets, and consequent cost reductions.

Relatively high capex for FY2019 to FY2021 – The company has cumulative capex plans of Rs. 2,115 crore outlined for FY2019 to FY2021, primarily for its proposed capacity expansion projects to meet the increasing demand; close to 30% of this capex is likely to be debt-funded. TRCL is looking at expanding its grinding capacity by 3.0 million tonnes from the existing 4.2 million tonnes and its clinker capacity by 1.5 million tonnes from the existing 10.1 million tonnes. The grinding projects are proposed at Haridaspur (Orissa, greenfield), Kolaghat (West Bengal, brownfield) and Vizag (Andhra Pradesh, brownfield) while the clinker expansion is expected at the Jayanthipuram unit in Andhra Pradesh. However, with a major portion of the capex expected to be met through internal accruals, TRCL's capital structure and coverage metrics are expected to remain comfortable over the medium term.

High geographic concentration with South India – The company continues to derive about 70% of its revenues from the five southern states, exposing it to region-specific demand risks. 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 with the southern part of the country. With three grinding units (total 3.0 million tonnes capacity) in the pipeline closer to/in the east market and the anticipated higher penetration in the Orissa and West Bengal regions, the east India pie is likely to witness substantial growth over the medium term. However, the extent of geographic risk reduction remains to be seen.

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 4.2 million tonnes in South/East India. About 70% of the company's revenues are derived from the four southern states. TRCL has captive thermal and windmill capacities of 175 MW and 125.95 MW respectively. The company also has a subsidiary, Ramco Windfarms Limited, with a 39 MW windmill capacity.

The company is one of the flagship companies of 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]AA-/Stable/[ICRA]A1+) and Ramco Systems Limited (rated [ICRA]A-/Stable/[ICRA]A2+).

Key Financial Indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	3,967.3	4,423.8
PAT (Rs. crore)	654.2	560.2
OPBDIT/ OI (%)	30.8%	25.7%
RoCE (%)	16.5%	14.7%
Total Debt/ TNW (times)	0.4	0.3
Total Debt/ OPBDIT (times)	1.2	1.0
Interest coverage (times)	11.6	18.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Oct 2018	May 2018	Jul 2017	Jun 2016	Jul 2015
1	Term loans	Long Term	250.00	250.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)
2	Long-term fund based	Long Term	700.00				[ICRA]AA+ (Stable)		
3	Short-term fund based	Short Term	250.00						
4	Short-term non-fund based	Short Term	435.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short Term	825.00						
6	Non-convertible debenture	Long Term	100.00	Nil	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-

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: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term loans	FY2018	8.1%	FY2023	250.00	**[ICRA]AA+ (Stable)**
Long- term fund based	NA			700.00	
Short-term fund based				250.00	**[ICRA]A1+**
Short-term non-fund based				435.00	
Commercial Paper				825.00	

Source: The Ramco Cements Limited

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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.

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

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