

The Ramco Cements Limited

March 26, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	250.00	750.00	[ICRA]AA+ (Stable) assigned for the enhanced bank lines;
Long-term fund based	700.00	735.00	
Short-term fund based	250.00	250.00	[ICRA]A1+ assigned for the enhanced bank lines
Short-term non-fund based	435.00	485.00	
Commercial Paper	825.00	825.00	[ICRA]A1+ outstanding
Total	2,460.00	3,045.00	

*Instrument details in Annexure – I

Rationale

The assigned ratings draw comfort from TRCL's strong business profile and financial position. The company continues to have healthy market share in the Southern region and has been expanding its presence in the Eastern region. Further, TRCL's volumes have grown faster than the respective region growths in most geographies in FY2018 and 9M FY2019. TRCL's financial position also remains strong with a gearing of 0.4 times and NCA/Total debt of 46.3% as on Dec 31, 2018; the interest coverage stood at 18.7 times for 9M FY2019. The company's operating margins were weaker at 25.7% for FY2018 (as against 30.8% for FY2017) and 19.7% for 9M FY2019 (as against 26.3% in 9M FY2018), impacted by increase in petcoke and coal 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. 974 in 9M FY2019 (as against Rs. 1,257 for 9M FY2018). Despite the decline, TRCL's margins continue to remain strong.

TRCL is likely to witness a higher-than-industry volume growth in FY2019 – supported by healthy growth across most markets, 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 for full year FY2019, although some improvement is likely in FY2020 with lower fuel costs. 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. 2,925 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 the Southern region and has been expanding its presence in the Eastern region. TRCL's volumes have grown faster than the respective region growths in most geographies in FY2018 and 9M 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. 562 crore in 9M 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 0.4 times as of Dec 31, 2018 while its interest coverage was 18.7 times for 9M FY2019. With comfortable accrual levels going forward and relatively low repayment obligations compared to anticipated accruals, ICRA expects TRCL's financial profile to remain strong in the near to medium term, despite the proposed capex.

Healthy full year FY2019 growth outlook for TRCL - ICRA expects the pan-India cement demand to grow at 9-10% in FY2019 driven by a pickup in the affordable/rural housing and infrastructure (primarily road, railway and irrigation projects) segments. TRCL is likely to witness a 15%+ volume growth in FY2019 - higher than the industry growth - supported by healthy growth across most markets. 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 9M FY2019; OPBDITA/Tonne to be subdued for full year FY2019, although some improvement likely in FY2020 - The company's operating margin was weaker at 25.7% for FY2018 (as against 30.8% for FY2017) and 19.7% for 9M FY2019 (as against 26.3% in 9M 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. 974 in 9M FY2019 (as against Rs. 1,257 for 9M 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 9.4% for 9M FY2019 (as against 14.2% for 9M FY2018). Despite the decline, TRCL's margins continue to remain strong. While the OPBDITA/Tonne is likely to be muted for full year FY2019, it is likely to improve in FY2020 with lower fuel costs. Also, TRCL would benefit if the recent price hike can be sustained. 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. 2,925 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 around 3.75 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 and through a greenfield plant in Kurnool, Andhra Pradesh. With a major portion of the proposed 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.

Liquidity Position:

TRCL's liquidity position has remained strong with positive retained cash flows in the last several years. The company had cash and liquid investments of Rs. 119.9 crore as on March 31, 2018. The company has a total capex of ~Rs. 2,925 crore over FY2019-21, for capacity enhancements as explained above; part of it is likely to be debt-funded. Also, TRCL has consolidated repayment obligations of about Rs. 590 crore on aggregate basis for FY2019-FY2021. Despite this, the company's liquidity position is expected to remain strong over the medium term, supported by its healthy accruals.

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

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, 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:

Chronology of Rating History for the past 3 years								
Current Rating (FY2019)								
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
1 Term loans	Long Term	750.00	377.50 (as on Dec 31, 2018)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2 Long-term fund based	Long Term	735.00						
3 Short-term fund based	Short Term	250.00						
4 Short-term non-fund based	Short Term	485.00		[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	8.3%	FY2024	750.00	[ICRA]AA+ (Stable)
Long- term fund based	NA			735.00	
Short-term fund based				250.00	
Short-term non-fund based				485.00	[ICRA]A1+
Commercial Paper				825.00	

Source: The Ramco Cements Limited

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Ramco Windfarms Limited – Subsidiary	71.50%	Full consolidation
Ramco Industries Limited - Associate	15.43%	
Ramco Systems Limited - Associate	17.74%	Equity method
Rajapalayam Mills Limited - Associate	0.35%	
Shri Vishnu Shankar Mill Limited - Associate	0.14%	
Madurai Trans Carrier Limited - Associate	29.86%	
Lynks Logistics Limited - Associate	48.78%	

Source: The Ramco Cements Limited

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