July 30, 2019

The Ramco Cements Limited: [ICRA]AA+(Stable) assigned for Rs. 150.00 crore enhanced bank lines; [ICRA]A1+ assigned for Rs. 75.00 crore enhanced commercial paper

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	750.00	900.00	[ICRA]AA+ (Stable) assigned for the enhanced facilities
Long-term fund based	735.00	735.00	[ICRA]AA+ (Stable) outstanding
Short-term fund based	250.00	250.00	[ICRA]A1+ outstanding
Short-term non-fund based	485.00	485.00	
Commercial Paper	825.00	900.00	[ICRA]A1+ assigned for the enhanced facilities
Total	**3,045.00**	**3,270.00**	

*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 over the last few years. Further, TRCL's volumes have grown faster than the respective region growths in most geographies in FY2019. Its financial position remains strong with a gearing of 0.4 times and NCA/Total debt of 45.7% as on Mar 31, 2019; the interest coverage was 20.8 times for FY2019. The company's operating margins were weaker at 21.1% for FY2019 (as against 25.7% for FY2018 and 30.8% for FY2017), impacted by increase in petcoke and coal prices, amidst decline in average realization. The OPBDITA/Tonne also moderated to Rs. 983 in FY2019 (as against Rs. 1,207 in FY2018 and Rs. 1,465 for FY2017). Despite the decline, TRCL's margins continue to be strong.

TRCL's FY2020 volume growth is likely to be supported by growth across most markets, partly aided by increasing penetration. TRCL's OPBDITA/Tonne is also expected to improve in FY2020, primarily aided by lower per tonne fuel and freight costs, although it will remain lower than the highs of Rs. 1,200 – Rs. 1,550 per tonne witnessed during FY2016-FY2018. The favourable location of the upcoming grinding units in Vizag, Orissa and West Bengal should enable reduction in transit distance for the eastern markets, and consequent cost reductions in the next 2-3 years. ICRA positively factors in the expected growth in the company's east India revenue pie over the medium term and the anticipated reduction in the concentration on South India (which is 70%+ currently) once the proposed grinding project expansions are completed. The company has a cumulative capex of ~Rs. 2,700 crore outlined for FY2020 to FY2022, primarily for its proposed capacity expansion projects to meet increasing demand; about 20% 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 FY2019.

Healthy accruals, conservative capital structure and comfortable liquidity position – The company generated net cash accruals of close to Rs. 2,500 crore over the last three years. The company's gearing was 0.3 times as of Mar 31, 2019 while its interest coverage was 20.8 times for FY2019. With comfortable accrual levels 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 medium-term volume growth outlook for TRCL - TRCL's FY2020 volume growth would be supported by growth across most markets, partly aided by increasing penetration. ICRA expects healthy demand growth for TRCL over the medium term, partly driven by volumes from the Orissa, West Bengal and Andhra Pradesh regions, post completion of the ongoing capacity expansion projects.

Credit weaknesses

Margins exposed to volatile input costs - The company's operating margins were weaker at 21.1% for FY2019 (as against 25.7% for FY2018 and 30.8% for FY2017), impacted by increase in petcoke and coal prices, amidst decline in realization. The reduction in net margins was lower, aided by improvement in interest expenses; the net margins stood at 9.8% for FY2019 (as against 12.7% for FY2018). Despite the decline, TRCL's margins continue to remain strong. While TRCL's OPBDITA/Tonne moderated to Rs. 983 in FY2019 (as against Rs. 1,207 in FY2018 and Rs. 1,465 for FY2017), softer fuel prices and freight rates are expected to support higher OPBDITA/Tonne in FY2020. 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 FY2020 to FY2022 – The company has cumulative capex plans of ~Rs. 2,700 crore outlined for FY2020-22, primarily for its proposed capacity expansion projects to meet increasing demand; approximately 20% 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. TRCL's capital structure and coverage metrics are expected to remain comfortable over the medium term, with a major portion of the proposed capex likely to be met through internal accruals.

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 sizeable 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. It had cash and liquid investments of Rs. 96.9 crore as on March 31, 2019. The company has a total capex of ~Rs. 2,700 crore over FY2020-22, for capacity enhancements as explained above; part of it is likely to be debt-funded. Also, TRCL has consolidated repayment obligations of about Rs. 742 crore on aggregate basis for FY2020-FY2022. Despite this, the company's liquidity position is expected to remain strong over the medium term, supported by its healthy accruals. Further, TRCL enjoys strong financial flexibility and lender/investor comfort and this is expected to continue going forward as well.

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-/Positive/[ICRA]A2+).

Key Financial Indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	4,423.8	5,162.3
PAT (Rs. crore)	560.2	507.5
OPBDIT/ OI (%)	25.7%	21.1%
RoCE (%)	14.7%	13.1%
Total Debt/ TNW (times)	0.3	0.4
Total Debt/ OPBDIT (times)	1.0	1.5
Interest coverage (times)	18.7	20.8

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 (FY2020)				Chronology of Rating History for the past 3 years				
					Date & Rating	Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Jul 2019	Mar 2019	Oct 2018	May 2018	Jul 2017	Jun 2016
1	Term loans	Long Term	900.00	530.0 (as on Mar 31, 2019)	[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	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+	[ICRA]A1+
5	Commercial Paper	Short Term	900.00							
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

<table>
<tr><th>ISIN</th><th>Instrument Name</th><th>Date of Issuance / Sanction</th><th>Coupon Rate</th><th>Maturity Date</th><th>Amount Rated (Rs. crore)</th><th>Current Rating and Outlook</th></tr>
<tr><td rowspan="5">Not applicable</td><td>Term loans</td><td>FY2018</td><td>8.3%</td><td>FY2024</td><td>900.00</td><td rowspan="2">[ICRA]AA+ (Stable)</td></tr>
<tr><td>Long- term fund based</td><td rowspan="4">NA</td><td rowspan="4"></td><td rowspan="4"></td><td>735.00</td></tr>
<tr><td>Short-term fund based</td><td>250.00</td><td rowspan="3">[ICRA]A1+</td></tr>
<tr><td>Short-term non-fund based</td><td>485.00</td></tr>
<tr><td>Commercial Paper</td><td>900.00</td></tr>
</table>

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 Industrial and Technology Services Limited – Subsidiary	94.11%	
Ramco Industries Limited - Associate	15.43%	Equity method
Ramco Systems Limited - Associate	17.74%	
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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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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