November 26, 2019

The Ramco Cements Limited: [ICRA]AA+(Stable) assigned for NCD programme

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	-	400.00	[ICRA]AA+ (Stable) assigned
Term loans	1,550.00	1,550.00	[ICRA]AA+ (Stable) outstanding
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	900.00	900.00	
Total	**3,920.00**	**4,320.00**	

**Instrument details in Annexure – I*

Rationale

The ratings draw comfort from The Ramco Cements Limited's (TRCL) strong business profile with a healthy market share in the South Indian cement market and its expanding presence in the eastern markets over the last few years. Further, TRCL's volumes have grown faster than the respective regional growths in most geographies in FY2019 and H1 FY2020. Its financial position remained healthy with gearing of 0.5 times and NCA/total debt of 45.9% as on September 30, 2019. Its interest coverage was 22.9 times in H1 FY2020. The company's operating margins remained strong at 24.4% in H1 FY2020 (PY: 21.0%), supported by improvement in net realisation and lower freight costs. The OPBDITA/tonne also improved to Rs. 1,220 for H1 FY2020 from Rs. 932 in FY2019.

TRCL's FY2020 volume growth is likely to be supported by improvement across all markets. Also, its OPBDITA/tonne is also expected to improve in FY2020 on a YoY basis, primarily aided by better realisations and lower per tonne fuel and freight costs. However, 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 would lead to a reduction in transit distance for the target markets in eastern India, supporting profits. ICRA positively factors in the expected growth in the company's eastern/western India revenue pie over the medium term, and the anticipated reduction in the concentration on South India (which is 75% currently) once the proposed grinding and clinker project expansions are completed.

The company has a cumulative capex of ~Rs. 2,825 crore outlined for FY2020-FY2022, primarily for its proposed capacity expansion projects to meet increasing demand. Front loading of the capex to FY2020 to meet the capacity shortage would lead to higher debt-funded capex than earlier estimates. This is likely to moderate TRCL's coverage metrics in FY2020 and FY2021. Further, its working capital utilisation remained over 90% of its eligible drawing power for the period August 2018-August 2019, and at over 85% of its sanctioned working capital lines for the same period. However, the company's capital structure and coverage metrics are expected to remain comfortable over the medium term, supported by over Rs. 850 crore of annual accruals.

Key rating drivers and their description

Credit strengths

Strong market position in southern region; increasing penetration in eastern 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 a 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 and H1 FY2020.

Healthy accruals and conservative capital structure – The company generated net cash accruals of close to Rs. 3,000 crore over FY2017-H1 FY2020. The company's gearing was 0.5 times as of September 30, 2019, while its interest coverage was 22.9 times for H1 FY2020. With comfortable accrual levels, ICRA expects TRCL's financial profile to remain healthy over the medium term, despite the proposed capex and debt funding, some moderation expected in coverage metrics in FY2020 and FY2021.

Healthy medium-term volume growth outlook for TRCL - The company's FY2020 volume growth would be supported by improvements across markets. ICRA expects healthy demand growth for TRCL over the medium term, partly driven by volumes from the Orissa, West Bengal, Andhra Pradesh and Maharashtra regions, post completion of the ongoing capacity expansion projects.

Credit challenges

Relatively high capex for FY2020 to FY2022 with considerable front-ending – The company has a relatively high capex plan of ~Rs. 2,825 crore outlined for FY2020-FY2022, predominantly for its proposed capacity expansion projects to meet the increasing demand. While the overall capex over the medium term has remained broadly similar to the earlier estimates, the capex is front ended, leading to higher debt funding in the immediate term. As a result of an increase in debt levels, TRCL's coverage metrics are expected to moderate in FY2020 and FY2021.

Relatively high working capital utilisation – The company's working capital utilisation has been over 90% of its eligible drawing power for the period August 2018-August 2019, and over 85% of its sanctioned working capital lines for the same period. Reduction in working capital utilisation to 70-75% of the drawing power in the next six months would be imperative.

High geographic concentration in South India – The company derives about 75% of its revenues from the five southern states, which exposes 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 towards the southern part of the country. The company has three grinding units (total 3.0 million tonne capacity) in the pipeline closer to/in the eastern market in FY2020 and clinker capacities in Jayanthipuram and Kurnool in Andhra Pradesh (total 3.75 million tonnes capacity) in FY2021/FY2022. This is likely to support higher penetration in the Orissa and West Bengal regions and entry into new areas like Maharashtra, resulting in diversification. However, the extent of geographic-concentration risk reduction remains to be seen.

Liquidity Position: Adequate

TRCL's liquidity position has remained **adequate** with positive retained cash flows in the last several years, leading to cash and cash equivalents of Rs. 130.5 crore as on September 30, 2019. However, its working capital utilisation as a percentage of drawing power has been over 90% for the 13-month period ending August 2019. The company has a total capex of ~Rs. 2,825 crore over FY2020-FY2022 for capacity enhancements, part of which is likely to be debt funded. Also, TRCL has consolidated repayment obligations of close to Rs. 1,000 crore on an aggregate basis for FY2020-FY2022. Despite this, the company's liquidity position is expected to remain adequate over the medium term, supported by its healthy accruals. Further, it enjoys strong financial flexibility and lender/investor comfort, which is expected to continue going forward as well.

Rating sensitivities

Positive triggers – A rating upgrade is unlikely in the near term, given that TRCL has relatively high debt-funded capex plans in FY2020 and FY2021.

Negative triggers – Inability to reduce its average working capital utilisation below 70-75% of the available drawing power in the next six months could result in a rating downgrade. Also, negative pressure on TRCL's rating could emerge with sharp deterioration in earnings or significant rise in net debt.

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) 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 tonne per annum, spread across five facilities in Tamil Nadu, Andhra Pradesh and Karnataka. It has an additional grinding capacity of 4.2 million tonne 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 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 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 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

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th rowspan="3">Type</th><th rowspan="3">Amount Rated (Rs. crore)</th><th rowspan="3">Amount Outstanding (Rs. crore)</th><th colspan="3">Current Rating (FY2020)</th><th colspan="5">Chronology of Rating History for the past 3 years</th></tr>
<tr><th colspan="3">Date & Rating in FY2020</th><th colspan="3">Date & Rating in FY2019</th><th>Date & Rating in FY2018</th><th>Date & Rating in FY2017</th></tr>
<tr><th>26 Nov 2019</th><th>08 Nov 2019</th><th>30 Jul 2019</th><th>26 Mar 2019</th><th>03 Oct 2018</th><th>23 May 2018</th><th>20 Jul 2017</th><th>09 Jun 2016</th></tr>
<tr><td>1</td><td>Term loans</td><td>Long Term</td><td>1,550.00</td><td>1,145 (as on Sep 30, 2019)</td><td colspan="8" rowspan="2">[ICRA]AA+ (Stable)</td></tr>
<tr><td>2</td><td>Long-term fund based</td><td>Long Term</td><td>735.00</td><td></td></tr>
<tr><td>3</td><td>Short-term fund based</td><td>Short Term</td><td>250.00</td><td></td><td colspan="8" rowspan="3">[ICRA]A1+</td></tr>
<tr><td>4</td><td>Short-term non-fund based</td><td>Short Term</td><td>485.00</td><td></td></tr>
<tr><td>5</td><td>Commercial Paper</td><td>Short Term</td><td>900.00</td><td></td></tr>
<tr><td>6</td><td>Non-convertible debenture</td><td>Long Term</td><td>400.00</td><td>Nil</td><td>[ICRA]AA+ (Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td colspan="2">[ICRA]AA+ (Stable)</td></tr>
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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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not applicable	NCD	Yet to be placed			400.00	[ICRA]AA+ (Stable)
	Term loans	FY2018	8.2%	FY2025	1,550.00	
	Long- term fund based	NA			735.00	
	Short-term fund based				250.00	[ICRA]A1+
	Short-term non-fund based				485.00	
	Commercial Paper				900.00	

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 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	49.05%	

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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