

March 13, 2023

The Ramco Cements Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD)	990.00	990.00	[ICRA]AA+ (Stable); reaffirmed
NCD	0.00	500.00	[ICRA]AA+ (Stable); assigned
Term loans	3379.13	3105.92	[ICRA]AA+ (Stable); reaffirmed
Long-term fund based	905.00	885.00	[ICRA]AA+ (Stable); reaffirmed
Short-term fund based	430.00	1210.00	[ICRA]A1+; reaffirmed
Short-term non-fund based	250.00	235.00	[ICRA]A1+; reaffirmed
Commercial paper	900.00	900.00	[ICRA]A1+; reaffirmed
Unallocated limits	548.87	77.08	[ICRA]AA+ (Stable); reaffirmed
Total	7403.00	7903.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of The Ramco Cements Limited's (TRCL) considers the strong business profile, backed by a healthy market share in South India, and its expanding presence in the eastern markets over the last few years. ICRA positively factors in TRCL's expected revenue growth over the medium term, supported by the likely ramp-up of the grinding capacities and recently commissioned Kurnool integrated plant. The company's operating income (OI) witnessed 8% CAGR during FY2018-FY2022, led by an increase in volumes at 4% CAGR. Further, the company's OI improved by 30% YoY to Rs. 5584.7 crore in 9MFY2023 driven largely by volumetric growth supported by the healthy demand from housing and infrastructure sectors, along with a low base effect and overall revenues are estimated to increase by 30-32% in FY2023 and 14-16% in FY2024. Further, TRCL has strong operational efficiencies arising out of integrated nature of the plants, access to captive limestone mines along with the split-grinding unit of 7.49 MTPA to optimise the freight costs and has a captive thermal capacity of 175 MW, windmill capacities of 166 MW (including subsidiaries) and WHRS capacity of 27 MW as on March 31, 2022, which cater to its power requirements. The ratings take comfort from the exceptional financial flexibility enjoyed by the company from lenders/investors.

The company's net debt/OPBIDTA stood at 4.4 times in 9M FY2023 against 2.9 times in FY2022 (1.9 times in FY2021) on the back of an increase in debt by ~16% amid the ongoing capex plans and decline in operating profits. The company's OPBIDTA/MT declined to Rs. 779/MT in 9M FY2023 from Rs. 1190/MT in FY2022 owing to a significant increase in power and fuel costs. With the moderation in input costs, the OPBIDTA/MT of the company is expected to be in the range of Rs.800-820/MT in FY2023 and is likely to increase to Rs. 950-1000/MT in FY2024. TRCL is estimated to incur a capex of around Rs. 2600 crore in FY2023-FY2024, which is higher than ICRA's expectations (Rs. 1600 crore in FY2023-FY2024) on the back of increase in scope of works across few of its projects and increase in raw material prices. As a result, the net debt/OPBIDTA is estimated to remain elevated at around 4.3 times as of March 2023 and in the range of 2.6-2.8 times as of March 2024. However, with expected improvement in OPBIDTA/MT, and completion of major debt funded capex, the net debt/OPBIDTA is expected to decline significantly post March 2024. The ramp-up of the new capacities and the improvement in utilisation of the existing facilities remain important for improving the company's return indicators.

Although TRCL has been gradually expanding its presence in Orissa and West Bengal over the last few years, partly by setting up grinding units closer to these markets, the proportion of revenues remain skewed towards southern India. The company

derives about 75% of its revenues from five southern states, which exposes it to region-specific demand risks. The expected increased penetration in Orissa and West Bengal and its entry into new markets like Maharashtra are likely to aid in diversification.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that TRCL's credit profile will be supported by its strong operational profile and the exceptional financial flexibility.

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 such as Ultratech, Dalmia, Chettinad and Coromandel. The company continues to maintain a healthy market share in the southern region. ICRA positively factors in TRCL's expected revenue growth over the medium term, supported by the likely ramp-up of the grinding capacities and recently commissioned Kurnool integrated plant.

Strong operational efficiencies: TRCL has strong operational efficiencies arising out of integrated nature of plants and access to captive limestone mines along with the split-grinding unit of 7.49 MTPA to optimise the freight costs. Further, the company has captive thermal capacity of 175 MW, windmill capacities of 166 MW (including subsidiaries) and WHRS capacity of 27 MW as on March 31, 2022, which cater to its power requirements and resulted in better OPBIDTA/MT in the past.

Favourable demand prospects and exceptional financial flexibility: The company's OI witnessed 8% CAGR during FY2018-FY2022, led by an increase in volumes at 4% CAGR. Further, the company's OI improved by 30% YoY to Rs. 5584.7 crore in 9M FY2023 and is likely to improve by 20- 25% in FY2023, driven largely by volumetric growth supported by the healthy demand from housing and infrastructure sectors, along with a low base effect and overall revenues are estimates to increase by 30-32% in FY2023 and 14-16% in FY2024. The Government's push for affordable housing and focus on the infrastructure segments are positive factors from the long-term demand perspective. ICRA favourably factors in the company's exceptional financial flexibility. TRCL had undrawn term loans of Rs. 512.0 crore as of February 2023.

Credit challenges

Moderation of operating profits and higher-than-anticipated capex to result in higher reliance on debt – The company's net debt/OPBIDTA stood at 4.44 times in 9M FY2023 against 2.9 times in FY2022 (1.9 times in FY2021) on the back of an increase in debt by ~19% amid the ongoing capex plans and decline in operating profits due to higher input costs. It is estimated to incur a capex of Rs. 2600 crore in FY2023-FY2024, which is higher than ICRA's expectations (Rs. 1600 crore in FY2023-FY2024) on the back of increase in scope of works across few of its projects and increase in raw material prices. As a result, the net debt/OPBIDTA is estimated to remain elevated at around 4.3 times as of March 2023 and in the range of 2.6-2.8 times as of March 2024. However, with expected improvement in OPBIDTA/MT and completion of major debt funded capex, the net debt/OPBIDTA is expected to decline significantly post March 2024.

Geographic concentration in South India: 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 remains skewed towards southern India. The company derives about 75% of its revenues from the five southern states, which exposes it to region-specific demand risks. The expected increased penetration in Orissa and West Bengal and entry into newer markets like Maharashtra, is likely to aid in diversification.

Vulnerability of revenues to cyclicity in economy: TRCL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. When capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, TRCL's operating profitability remains susceptible to fluctuations in input prices. Given the elevated prices of coal and pet coke, the company's profitability is likely to remain under pressure in the near term.

Liquidity position: Adequate

TRCL's liquidity position is adequate with positive retained cash flows in the last several years and cumulative accruals of over Rs. 6000 crore over FY2017–9MFY2023. The company had unencumbered cash balance of Rs. 80.8 crore as on Dec 31, 2022 and its average working capital utilisation as a percentage of drawing power was 74% for the period Feb 2022 – Jan 2023. TRCL has repayment obligation of Rs. 211.4 crore in Q4FY2023 and Rs. 834 crore in FY2024 which can be comfortably serviced through estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade TRCL's long-term rating if there is significant increase in scale of operations and improvement in operating margins, resulting in an improvement in debt protection metrics and return indicators on a sustained basis.

Negative factors – Pressure on TRCL's ratings could emerge if there is sharp deterioration in earnings or significant rise in net debt on a sustained basis. Specific credit metrics that could exert downward pressure on the rating include net debt/EBITDA greater than 2.25x times on a sustained basis.

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; please refer Annexure II for the list of entities considered for consolidated analysis

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 integrated cement capacity of 13.70 million tonne per annum, across five facilities in Tamil Nadu and Andhra Pradesh. It has an additional grinding capacity of 7.49 million tonnes 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 two modest-scale subsidiaries, Ramco Windfarms Limited (with a 39-MW windmill capacity) and Ramco Industrial and Technology Services Limited (which is into transport services, manpower services and IT). It is one of the flagship companies of the larger Ramco Group founded in 1938 by the Late 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 Ramco Industries Limited (rated [ICRA]AA- /Stable/[ICRA]A1+), Ramco Systems Limited (rated [ICRA]A/Negative/[ICRA]A2+) and Rajapalayam Mills Limited.

Key financial indicators

TRCL	FY2021	FY2022	9MFY2023
	Audited	Audited	Provisional
Operating income	5291.0	6003.7	5584.7
PAT	763.6	892.9	191.1
OPBDIT/OI	30.0%	21.9%	14.2%
PAT/OI	14.4%	14.9%	3.4%
Total outside liabilities/Tangible net worth (times)	1.0	1.0	1.1
Total debt/OPBDIT (times)	2.0	3.0	4.4
Interest coverage (times)	18.0	11.7	4.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument			Current Rating (FY2023)				Chronology of Rating History for the past 3 years							
			Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Date & Rating in		Date & Rating in FY2022		Date & Rating in FY2021			Date & Rating in FY2020			
	Type	Amount Rated (Rs. crore)		Mar-13-2023	Sep-30-2022	Feb-25-2022	Oct-6-2021	Dec-18-2020	Oct-6-2020	Sep-23-2020	Nov-26-2019	Nov-8-2018	July-30-2019	
1	Term loans	Long-term	3105.92	3105.92	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[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	885.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	Short-term fund based	Short-term	1210.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Short-term non-fund based	Short-term	235.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Commercial paper	Short-term	900.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
6	Non-Convertible Debentures	Long-term	1490.0	795.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	
7	Long-term unallocated	Long-term	77.08	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable) Withdrawn	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long-term fund based	Simple
Short-term fund based	Simple
Short-term non-fund based	Very Simple
Commercial paper	Very Simple
Non-convertible debentures	Very Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	FY2018	8.1%	FY2028	3105.92	[ICRA]AA+ (Stable)
-	Long term fund based	-	-	-	905.0	[ICRA]AA+ (Stable)
-	Short term fund based	-	-	-	1210.0	[ICRA]A1+
-	Short term non-fund based	-	-	-	235.0	[ICRA]A1+
-	Long-term unallocated	-	-	-	77.08	[ICRA]AA+ (Stable)
INE331A14NB5	Commercial Papers	-	-	-	50.0	[ICRA]A1+
INE331A14NC3	Commercial Papers	-	-	-	150.0	[ICRA]A1+
-	Commercial Papers*	-	-	-	700.0	[ICRA]A1+
INE331AO7216	Non-Convertible Debentures^	Dec-2019	7.25%	Dec-2021	95.0	[ICRA]AA+ (Stable)
INE331AO7224	Non-Convertible Debentures^	Feb-2020	7.0%	Aug-2022	100.0	[ICRA]AA+ (Stable)
INE331AO7232	Non-Convertible Debentures	Feb-2020	7.0%	May-2023	100.0	[ICRA]AA+ (Stable)
INE331AO7240	Non-Convertible Debentures	Nov-2020	5.5%	May-2024	195.0	[ICRA]AA+ (Stable)
INE331AO7257	Non-Convertible Debentures^^	Feb-2021	5.5%	Apr-2023	200.0	[ICRA]AA+ (Stable)
INE331AO7265	Non-Convertible Debentures	Mar-2022	6.9%	Dec-2026	150.0	[ICRA]AA+ (Stable)
INE331AO7273	Non-Convertible Debentures	Mar-2022	6.9%	Mar-2027	150.0	[ICRA]AA+ (Stable)
-	Non-Convertible Debentures*	-	-	-	500.0	[ICRA]AA+ (Stable)

Source: Company; *Yet to be placed; ^NCDs has been redeemed; ^^Rs. 100 crore has been redeemed in Feb 2023.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ramco Industrial and Technology Services Limited – Subsidiary	94.11%	Full Consolidation
Ramco Windfarms Limited – Subsidiary	71.50%	Full Consolidation
Lynks Logistics Limited – Associate	41.63%	Equity Method
Madurai Trans Carrier Limited – Associate	29.86%	Equity Method
Ramco Systems Limited – Associate	17.64%	Equity Method
Ramco Industries Limited – Associate	15.43%	Equity Method
Rajapalayam Mills Limited - Associate	0.35%	Equity Method

Source: TRCL

Note: ICRA has considered the consolidated financials of The Ramco Cements Limited, its subsidiaries and associates while assigning the ratings. ICRA has also evaluated the adjusted leverage and coverage metrics while including the debt of Madurai Trans Carrier Limited (MTCL, as take-or-pay agreement with TRCL and 2 other entities) and Raja Charity Trust (as TRCL has given corporate guarantee).

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