April 12, 2023

Ramco Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	45.0	95.0	[ICRA]AA- (Stable) reaffirmed
Long-term – Unallocated	105.0	5.0	[ICRA]AA- (Stable) reaffirmed
Fund-based/Non-fund based facilities	145.0	145.0	[ICRA]A1+ reaffirmed
Short-term – Unallocated	205.0	255.0	[ICRA]A1+ reaffirmed
Total	**500.0**	**500.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Ramco Industries Limited's (RIL) established position in the domestic asbestos-based fibre cement (FC) sheet industry and its diversification efforts on product segments such as calcium silicate boards (CSB), non-asbestos based roofing products and presence in the Sri Lankan market. The ratings note its comfortable financial risk profile, driven by steady cash accruals, low leverage and moderate capex plans. Additionally, the ratings reflect the company's strong financial flexibility by virtue of being a part of the Ramco Group.

The company is estimated to report muted growth in revenues at the consolidated level in FY2023 on account of slowdown in operations for the Sri Lankan subsidiary due to moderation in demand and lower export demand in the textile segment owing to recessionary environment in Europe and US markets. However, the operating margins are estimated to moderate in FY2023, given the rise in raw material costs for both the building materials as well as textile segment, along with under-performance of the Sri Lankan subsidiary. With moderation in operating profitability and increase in short term debt due to increase in inventory levels, the Debt/EBITDA is expected to be moderate in FY2023. Driven by steady demand for asbestos sheets and prudent working capital management, its revenues are estimated to grow by 5-7% YoY in FY2024 and operating margins will be in the range of 9-11%, which is likely to improve the Debt/EBITDA in FY2024.

The ratings, however, are constrained by the vulnerability of RIL's revenues and margins to the regulatory risks arising from the threat of ban on use or manufacture of asbestos-related products, as well as on the mining of asbestos in asbestos-producing countries. However, with increasing diversification towards non-asbestos based products, the risk is expected to moderate in the medium to long term. The ratings continue to remain constrained by the vulnerability of demand for FC sheets to monsoon patterns, rural income levels and threat of substitutes, vulnerability of margins to sharp fluctuations in raw material prices and exchange rates, amid intense competition in the industry.

ICRA notes that the company has capex plans worth Rs. 200 crore in the CSB segment for setting up a manufacturing unit. The same is expected to be funded by debt of Rs. 150 crore, which is likely to be taken up in H2 FY2024.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that RIL will continue to benefit from its established position in the domestic asbestos-based FC sheet industry, diversification benefits arising in its textile segment, the expected growth in the CSB segment and strong financial flexibility.

Key rating drivers and their description

Credit strengths

Extensive track record in FC sheet industry and diversified products – RIL has an extensive track record and established position in the domestic asbestos-based FC sheet industry, with a healthy market share in South India. It has been increasing its presence in other regions in India over the last few years. While asbestos-based products account for 70% of its total revenues, other segments such as textiles, CSB and other non-asbestos based products contribute to around 30% of revenues. The company has near-term expansion plans in the CSB segment, which could result in increase in revenues and better contribution from the non-asbestos segment. RIL has presence in Sri Lanka, through its subsidiaries, which provides geographical diversification to an extent.

Expected improvement in operating margins and leverage in FY2024; healthy coverage metrics – The company is estimated to report muted revenue growth at the consolidated level in FY2023 on account of slowdown in operations of its Sri Lankan subsidiary due to moderation in demand. It has been recording lower export demand in the textile segment owing to recessionary environment in Europe and US markets. However, the operating margins are estimated to moderate in FY2023, given the rise in raw material costs for both the building materials and textile segments, along with under-performance of the Sri Lankan subsidiary. With moderation in operating profitability and increase in short-term debt due to higher inventory levels, the Debt/EBITDA is expected to be moderate in FY2023. Driven by steady demand for asbestos sheets and prudent working capital management, its revenues are estimated to grow by 5-7% YoY in FY2024 and operating margins will be in the range of 9-11%, which is likely to improve the Debt/EBITDA in FY2024. RIL's capital structure continues to be healthy, as reflected by estimated Total outside liabilities (TOL)/ Tangible Net Worth (TNW) at 0.2 times in FY2023, supported by low debt and high net worth. Further, the coverage metrics are expected to healthy as reflected by interest coverage of above 6.5 times in the medium term.

Financial flexibility arising from being part of Ramco Group – RIL is a part of the Ramco Group of Companies, which is a reputed conglomerate with business interests across sectors such as cement, cotton and synthetic yarn, building products, software solutions, wind-energy, biotechnology, etc. The Group constitutes companies such as Ramco Cements Ltd. (rated [ICRA]AA+/Stable/A1+), Ramco Systems Ltd. (rated [ICRA]A/Negative/A2+), and Rajapalayam Mills Ltd, etc. The ratings draw comfort from the company's financial flexibility as a part of the Ramco Group and the substantial market value of its investments in Ramco Cements Ltd. (21.36% direct stake and 1.26% through its subsidiary) and Ramco Systems Ltd. (17.8% stake as on March 31, 2022). The company has invested around Rs. 45 crore in February 2023, resulting in an increase shareholding to 19.4%.

Credit challenges

Operations remain exposed to regulatory risks – The revenues and margins are vulnerable to the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos-producing countries. However, the company is expecting to improve the share of non-asbestos products in the medium term, which will act as a mitigant to the regulatory risks.

Vulnerability of demand to cyclicality in rural markets – Given the nature of its product offerings, the rural markets are the key consumers for asbestos sheets manufactured by the company. As a result, its business operations remain exposed to demand conditions of the rural economy, which in turn is dependent on monsoons, MSP movement and farm productivity. Any adverse movements in the demand for RIL's products from the rural markets could impact its revenue base and profitability.

Vulnerability of earnings to fluctuations in raw material prices, exchange rates and competition – RIL's margins are susceptible to variations in input prices, particularly asbestos fibre and cement. The margins are also exposed to adverse exchange rate movements. However, RIL hedges on a case-by-case basis, thereby mitigating the impact to a certain extent. The company's exports are moderate and act as natural hedge against imports (30% of imports are covered by exports in

FY2022). The FC sheet segment is characterised by intense competition due to low entry barriers. Moreover, the company has to compete with established players whose manufacturing units are close to high growth markets in northern and eastern regions. Hence, RIL's higher freight cost impacts its profitability metrics more than that of its competitors.

Liquidity position: Strong

RIL has a track record of positive cash from operations and the trend is expected to continue in FY2023 and FY2024. The company has annual repayment obligations of ~Rs. 15.4 crore in FY2024 and Rs. 10.2 crore in FY2025, which can be comfortably serviced from its estimated cash flow from operations. The cash and bank balances stood at ~Rs. 84.7 crore as on December 31, 2022, at the consolidated level, and the working capital facilities are moderately utilised with cushion of Rs. 225 crore as of December 2022. The liquidity profile is supported by the high market value of investments in other listed Group entities, which improves the company's financial flexibility.

Rating sensitivities

Positive factors – Sustained improvement in revenues and profitability while maintaining healthy debt coverage metrics and strong liquidity, along with moderation in dependence on asbestos products, may lead to a rating upgrade.

Negative factors – ICRA may downgrade the ratings in case of a significant decline in revenues or profitability, or if a large debt-funded capital expenditure or significant deterioration in the working capital cycle that may weaken the debt coverage metrics with net debt/OPBIDTA above 1.3 times on a sustained basis. Any regulatory action pertaining to the use or asbestos could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ramco Industries Limited (refer Annexure II)

About the company

RIL is a part of the Chennai-based Ramco Group and is primarily involved in manufacturing asbestos-based FC sheets, which are used as roofing material. Apart from FC sheets, RIL is involved in the spinning of cotton yarn and manufacturing of calcium silicate boards. It has a 100% subsidiary in Sri Lanka named Sri Ramco Lanka (Private) Limited, which is involved in manufacturing and marketing FC sheets in the country. The Ramco Group of Companies has interests in cement, FC sheets, textiles and information technology.

Key financial indicators (audited)

RIL	FY2021	FY2022
Operating income	1209.3	1457.2
PAT	115.9	126.5
OPBDIT/OI	16.3%	16.9%
PAT/OI	9.6%	8.7%
Total outside liabilities/Tangible net worth (times)	0.1	0.2
Total debt/OPBDIT (times)	0.8	0.9
Interest coverage (times)	20.5	28.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 12, 2023	-	Mar 17, 2022	Jan 29, 2021
1	Term loans	Long term	95.0	46.7	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Unallocated	Long term	5.0		[ICRA]AA- (Stable)		[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund-based/ Non-fund based	Short term	145.0		[ICRA]A1+		[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short term	255.0		[ICRA]A1+		[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Unallocated	NA
Short-term – Fund-based/Non-fund based	Very Simple
Short-term – Unallocated	NA

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 loan-I**	FY2019-FY2023	NA	FY2025-FY2028	95.0	[ICRA]AA-(Stable)
-	**Long-term – Unallocated**	-	-	-	5.0	[ICRA]AA-(Stable)
-	**Short-term – Fund-based/ Non-fund based**	-	-	-	145.0	[ICRA]A1+
-	**Short-term – Unallocated**	-	-	-	255.0	[ICRA]A1+

Source: Company

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
Sudharsanam Investments Ltd	100%	Full consolidation
Sri Ramco Lanka Private Ltd	99.99%	Full consolidation
Sri Ramco Roofings Lanka Private Ltd*	1.27%	Full consolidation
Sri Ramco Lanka (Private) Ltd holding in Sri Ramco Roofings (Private) Ltd	98.73%	Full consolidation
The Ramco Cements Ltd	22.62%	Equity Method
Rajapalayam Mills Limited	1.73%	Equity Method
Ramco Systems Limited	17.74%	Equity Method
Ramco Industries and Technology Services Limited	1.05%	Equity Method
Madurai Trans Carrier Limited	17.17%	Equity Method
Lynks Logistics Limited	25.71%	Equity Method

*Source: Company *step-down subsidiary.*

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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.

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