December 06, 2024

Ramco Industries Limited: [ICRA]AA- (Stable) assigned for proposed NCD; ratings reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	20.0	20.0	[ICRA]AA-(Stable); reaffirmed
Short-term – Fund-based/Non-fund based facilities	165.0	165.0	[ICRA]A1+; reaffirmed
Short-term – Unallocated	315.0	315.0	[ICRA]A1+; reaffirmed
Proposed Non-convertible debenture	-	160.0	[ICRA]AA- (Stable); assigned
Total	**500.0**	**660.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in Ramco Industries Limited's (RIL) comfortable financial risk profile with low leverage, moderate capex plans and healthy debt coverage metrics. The company is planning to raise NCDs in the near term for acquisition of shares in its associate company, The Ramco Cements Limited (TRCL, rated [ICRA]AA+ (Stable)/A1+). Post issue of NCDs, the debt levels are expected to rise. However, RIL's capital structure is anticipated to remain comfortable, as reflected by the estimated TOL/TNW at below 0.2 times in the medium term, supported by low debt and high net worth. Consequently, the company's debt coverage metrics are likely to be healthy as reflected by interest coverage of above 9.0 times in the medium term. Further, the total debt/OPBDITA level is expected to remain comfortable at around 1.4-1.5 times (PY: 1.6) in FY2025. The ratings note the 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 reflect the company's exceptional financial flexibility by virtue of being a part of the Ramco Group.

The ratings, however, consider the vulnerability of RIL's earning to variations in raw material prices, particularly asbestos fibre and cement. The company has limited flexibility to pass on the input price hikes to its customers because of intense competition in the FC sheet industry, impacting the margins to an extent. The operating margins are projected to remain in the range of 11-12% in FY2025 (PY: 10.4%) on the back of expected improvement in the performance of the textile division, supported by improving demand in the export countries and for the Sri Lankan subsidiary. The ratings consider the vulnerability of RIL's revenues and margins to 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 remain constrained by the vulnerability of demand for FC sheets to monsoon patterns, rural income levels and threat of substitutes.

ICRA notes that the company is awaiting certain approvals towards its capex plan of Rs. 200 crore in CSB segment for setting up a manufacturing unit (which was likely to be funded by debt of Rs. 150 crore) and the same is expected to commence in FY2026 (against the earlier plan of H2 FY2025).

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will benefit from its established position in the domestic-based FC sheet industry and comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Comfortable debt protection metrics – The company is planning to raise NCDs in the near term for acquisition of shares in its associate company, The Ramco Cements Limited. Post issue of NCDs, the debt levels are expected to rise. However, RIL's capital structure is expected to remain comfortable, as reflected by the estimated TOL/TNW at below 0.2 times in the medium term, supported by low debt and high net worth. Consequently, the company's debt coverage metrics are likely to be healthy as reflected by interest coverage of above 9.0 times in the medium term. Further, the total debt/OPBDITA level is projected to remain comfortable at around 1.4-1.5 times (PY: 1.6) in FY2025.

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. The company has diversified product segments such as fibre cement sheets (FC), calcium silicate boards (CSB), non-asbestos based roofing products. The company also has presence in Sri Lanka, through its subsidiaries, which provides geographical diversification to an extent.

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]BBB+/Stable/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 The Ramco Cements Limited (21.36% direct stake and 1.26% through its subsidiary and Ramco Systems Ltd. (20.07% stake as on September 30, 2024). With incremental investment of Rs. 100 crore by the company in TRCL as on November 2024, its stake has further increased by 0.47%.

Credit challenges

Vulnerability of earnings to fluctuations in raw material prices and competition – RIL's margins are susceptible to variations in input prices, particularly asbestos fibre and cement. The company has limited flexibility to pass on the input price hikes to its customers because of intense competition in the FC sheet industry, impacting the margins to an extent. The operating margins are projected to remain in the range of 11-12% in FY2025 (PY: 10.4%) on the back of expected improvement in the performance of the textile division, supported by improving demand in the export countries and Sri Lankan subsidiary. The company faces intense competition in the FC sheet segment due to low entry barriers. Moreover, it has to compete with established players whose manufacturing units are close to high growth markets in the northern and eastern regions.

Exposure to regulatory risks on asbestos-related products with cyclicality in rural markets – RIL's revenues and margins are vulnerable to regulatory risks associated with the threat of ban on the usage 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. Further, given the nature of the product offerings by RIL, the company is exposed to vulnerability of demand for FC sheets to monsoon patterns, rural income levels and threat of substitutes.

Environmental and social risks

While some forms of asbestos fibre pose health risks to individuals who are exposed, asbestos cement manufactured using white chrysotile asbestos is of relatively low risk. All manufacturers are required to follow strict environmental norms to operate. Given the safety and environmental health-related concerns associated with asbestos, the industry may be exposed to the risk of tightening regulatory norms. Any ban on the mining of asbestos across countries may expose the company to risk of non-availability of raw material. Any ban on the usage of asbestos due to environmental or health concerns could have a significant impact on the operations of FC segment, which is one of the major contributors to RIL's operating profits.

Liquidity position: Strong

The company's liquidity is strong. It has principal repayment obligations of Rs. 2.5 crore in H2 FY2025 and Rs. 5.0 crore in FY2026 towards its existing external debt and the same can be comfortably serviced from its estimated cash flow from operations. The unencumbered cash and cash equivalents balance stood at ~Rs. 90.6 crore as of September 2024, at the consolidated level and the working capital facilities are moderately utilised with cushion of Rs. 277 crore as of September 2024. Further, the fund flow from operations (FFO) is expected to be sufficient to meet the incremental working capital requirements and equity contribution of the proposed capex in FY2026. 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 working capital cycle weaken the debt coverage metrics with total debt/OPBIDTA above 1.75 times on a sustained basis. Any regulatory action pertaining to the use of asbestos could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles – Spinning
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

Ramco Industries Limited (RIL), part of the Chennai-based Ramco Group, primarily manufactures asbestos-based fibre cement (FC) sheets, which find major application as a roofing material. Apart from FC sheets, RIL is engaged in spinning of cotton yarn and manufacturing calcium silicate boards. RIL has a 100% subsidiary incorporated in Sri Lanka – Sri Ramco Lanka (Private) Limited – involved in the manufacturing and marketing of 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	FY2023	FY2024	H1 FY2025*
Operating income	1457.5	1501.3	896.3
PAT	107.6	73.0	49.4
OPBDIT/OI	11.4%	10.4%	11.0%
PAT/OI	7.4%	4.9%	5.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.1	0.1
Total debt/OPBDIT (times)	1.9	1.6	0.7
Interest coverage (times)	7.9	6.2	13.9

*Source: Company, ICRA Research; *Provisional; All ratios as per ICRA's calculations; Amount in Rs. crore*

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current rating (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Proposed NCD	Long Term	160.00	[ICRA]AA- (Stable)	-	-	-	-	-	-	-	-
Fund-based/Non-fund based	Short Term	165.00	[ICRA]A1+	17-MAY-2024	[ICRA]A1+	12-APR-2023	[ICRA]A1+	-	-	17-MAR-2022	[ICRA]A1+
Term loans	Long Term	20.00	[ICRA]AA- (Stable)	17-MAY-2024	[ICRA]AA- (Stable)	12-APR-2023	[ICRA]AA- (Stable)	-	-	17-MAR-2022	[ICRA]AA- (Stable)
Unallocated terms	Short Term	315.00	[ICRA]A1+	17-MAY-2024	[ICRA]A1+	12-APR-2023	[ICRA]A1+	-	-	17-MAR-2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Proposed NCD	Simple
Long-term – Fund-based – Term loans	Simple
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
-	**Proposed NCD***	-	-	-	160.0	[ICRA]AA-(Stable)
-	**Term loan**	FY2019-FY2023	NA	FY2025-FY2028	20.0	[ICRA]AA-(Stable)
-	**Short-term – Fund-based/non-fund based**	-	-	-	165.0	[ICRA]A1+
-	**Short-term – Unallocated**	-	-	-	315.0	[ICRA]A1+

*Source: Company; *yet to be placed*

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	20.07%	Equity Method
Ramco Industries and Technology Services Limited	1.05%	Equity Method
Madurai Trans Carrier Limited	17.17%	Equity Method

*Source: Company; ICRA research; *step-down subsidiary.*

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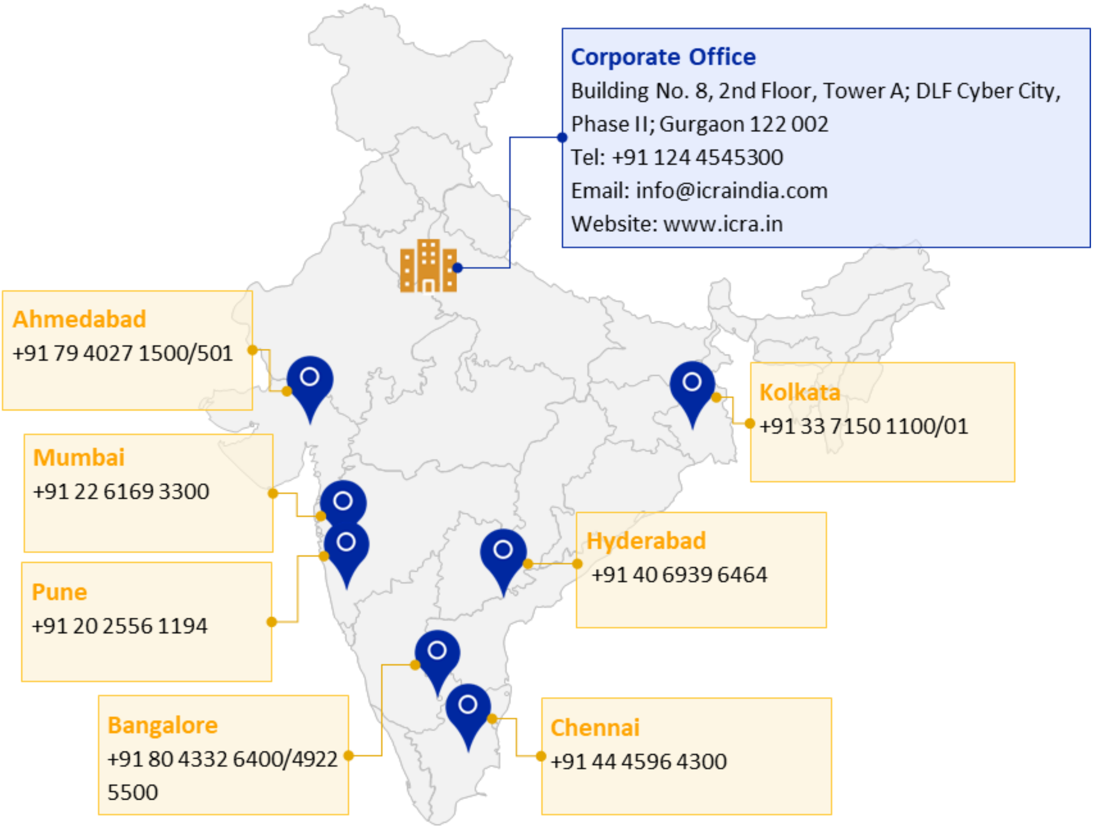

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