Ramco Industries Limited

July 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans/ ECBs	121.30	100.00	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable)
Long term proposed facilities	28.70	50.00	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable)
Fund based / Non fund based	260.00	260.00	[ICRA]A1+; reaffirmed
Short term proposed facilities	90.00	90.00	[ICRA]A1+; reaffirmed
Total	**500.00**	**500.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus) on the Rs. 100.00 crore term loans and Rs. 50.00 crore long term proposed facilities of Ramco Industries Ltd. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 260.00 crore fund based/non fund based facilities and Rs. 90.00 crore short term proposed facilities of Ramco Industries Ltd (RIL/the company) [1]. The outlook on the long-term rating is Stable.

Rationale

The long term rating upgrade favourably factors in the healthy revenue growth of ~13% at the standalone level during FY2018 driven by recovery in domestic demand for FC Sheets and continued growth in CSB segment, compared to preceding fiscal when the demand during the second half was partly impacted on account of demonetisation. However, the revenue growth at the consolidated level was at ~6% due to subpar performance of the Sri Lankan subsidiary, which was impacted by exogenous factors like floods and unrest in some regions. The profitability margins continue to be supported by sustained savings in raw material procurement costs and reduced interest costs in the previous two fiscals. ICRA also factors in the improvement in capitalisation and coverage indicators supported by the healthy reduction in overall debt levels of the company. ICRA also favourably considers RIL's long track record and established position in the domestic asbestos based fibre cement (FC) sheet industry, diversification efforts through focus on product segments like calcium silicate boards (CSB) and non-asbestos based roofing products and financial flexibility arising from being part of the Ramco Group. ICRA also draws comfort from the substantial market value of RIL's investments in Group companies (especially Ramco Cements Ltd.), which has also supported its bottom line via regular dividend payments.

The ratings, however, remain constrained by high competitive pressure in the industry, characterised by low entry barriers and ease of capacity expansion, susceptibility of rural demand to monsoon trends and threat of substitute products (which limits the company's pricing flexibility to pass on fluctuations in raw material prices, as witnessed in the past). Besides, the domestic FC sheets industry remains exposed to the increasing threat of asbestos mining being proscribed in countries from where the raw material is currently imported and any potential restriction on asbestos usage in the domestic market

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

in the medium to long term. Further, the company continues to extend corporate guarantees to weaker group entities and any potential devolvement of guarantees remain a rating sensitivity.

Outlook: Stable

ICRA believes RIL will continue to benefit from its long track record and established position in the domestic asbestos based FC Sheet industry, and diversification benefits arising from growth in the CSB segment. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Long track record in FC Sheet industry – RIL has long track record in manufacturing asbestos-based fibre cement sheets and has a healthy market share in Southern India. RIL has also been increasing its presence in other markets in India in the last few years.

Increasing product diversification – The share of the asbestos based product continues to remain high at ~60-65% of the revenues, however in the last few years with the growth in the CSB segment, the share of asbestos based products have moderated from ~70% levels witnessed in the past. Further, the textile segment which accounts for ~15% of revenue also provides diversification benefits. The company has also developed non asbestos based roofing products, however the revenue contribution from the same remains modest at present. The company also has presence in Sri Lanka, through its subsidiaries, which provides geographic diversification. The company enjoys healthy market share and profit margin at the Sri Lankan market, although the performance during FY2018 was impacted by floods and unrest in some regions.

Financial profile characterised by healthy capital structure and coverage metrics – RIL's capital structure and coverage indicators continued to witness improvement, with moderation in debt levels leading to standalone gearing of 0.32x as on March 31, 2018 compared to 0.57x as on March 31, 2017. The consolidated gearing also stood at 0.07x as on March 31, 2018. As part of adoption of Ind AS, due to fair value adjustments on investments in associates and other transition adjustments, the net worth for FY2016 was revised upwards by ~Rs. 1740.0 crore. Adjusting for the same and the income from associates (recognized as part of OCI in P&L), the gearing stood at 0.30x at the consolidated level as on March 31, 2018 compared to 0.52x and 0.60x as on March 31, 2017 and March 31, 2016. The coverage indicators such as Interest cover and TD/OPBDITA, also improved during FY2018 due to reduced interest costs and overall debt levels and stood at 3.6x and 2.7x for the standalone entity and 5.4x and 1.8x for the consolidated entity.

Financial flexibility arising from being part of the Ramco Group of Companies - RIL is a part of Ramco Group of companies, which is a reputed conglomerate with business interests across sectors like cotton and synthetic yarn, cement, building products, software solutions, wind-energy, bio-technology etc. The Group constitutes of companies like Ramco Cements Ltd. (rated [ICRA]AA+/Stable/A1+), Ramco Systems Ltd. (rated [ICRA]A-/Stable/A2+), and Rajapalayam Mills Ltd (rated [ICRA]A-/Stable/A2+), etc. The ratings draw comfort from the company's financial flexibility as a part of Ramco Group and the substantial market value of its investments in Ramco Cements Ltd. (20.93% direct stake and 1.27% through its subsidiary) and Ramco Systems Ltd. (17.90% stake).

Credit challenges

Demand for FC Sheets susceptible to monsoon patterns, rural income levels and threat of substitutes- Demand for asbestos fibre cement (FC) sheets is largely driven by rural and semi-urban regions. With the rural incomes heavily dependent on the monsoon rainfall, the FC sheet sales are susceptible to volatility in monsoon trends. Also the threat of substitute products such as GI Steel sheets limits the pricing flexibility of the company to pass on the fluctuations in raw material prices.

Competitive intensity – The FC Sheet segment is characterised by intense competition due to low entry barriers and established players with proximity of the manufacturing locations to high growth markets in Northern and Eastern markets. This leads to RIL incurring higher freight costs to cater to these markets impacting the profitability metrics of the company as compared to its competitors.

Dependence on imported raw materials leads to susceptibility to exchange rate movements – Raw materials such as asbestos fibre is imported by the company exposing the margins of the company to any adverse exchange rate movements. The company however hedges on a case by case basis thereby mitigating the impact to a certain extent.

Long term threat to the industry from regulatory concerns on asbestos use – The FC Sheet industry remains exposed to the threat of asbestos mining being proscribed in countries from where the material is currently being imported and any potential restriction on asbestos usage in the domestic market in the long term. During November 2017, the mining of asbestos in Brazil one of the key producing countries has been banned. However, given the access to diversified supplier base in other producing regions, the near-term risk on account of this is limited. Further, with increasing diversification towards non-asbestos based products, the risk is expected to moderate in medium term.

Support in the form of corporate guarantees to Group companies – RIL continues to extend corporate guarantees to two of its group entities namely Sri Harini Textiles Limited and Thanjavur Spinning Mills Ltd. The contingent liabilities arising from these corporate guarantees continued to remain at Rs. 81.3 crore as on March 31, 2018. Any potential crystallization of the liability may have adverse impact on company's credit metrics and remain a rating sensitivity factor.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

RIL is a part of the Chennai-based Ramco Group and is primarily engaged in the manufacture of asbestos-based FC sheets, which find application as a roofing material. The FC sheets division contributes to ~60-65% of RIL's revenues. Apart from FC sheets, RIL is engaged in the spinning of cotton yarn, clinker grinding and manufacturing of calcium silicate boards. RIL has a 100% subsidiary in Sri Lanka named Sri Ramco Lanka (Private) Limited, which is engaged 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)

	Standalone		Consolidated	
Key Financial Indicators	**FY2017**	**FY2018**	**FY2017**	**FY2018**
Operating Income (Rs. crore)	693.3	783.8	880.8	932.0
PAT (Rs. crore)	59.9	72.0	55.3	78.8
OPBDIT/OI (%)	8.0%	10.0%	13.5%	12.6%
RoCE (%)	11.8%	13.1%	3.8%	4.3%
Total Debt/TNW (times)	0.57	0.32	0.12	0.07
Total Debt/OPBDIT (times)	6.0	2.7	2.8	1.8
Interest coverage (times)	1.7	3.6	3.5	5.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating July 2018**	**Date & Rating in FY2018 Jul 2017**	**Date & Rating in FY2017 Nov 2016**	**Date & Rating in FY2016 Aug 2015**
1	Term Loans/ECBs	Long Term	100.00	100.00	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
2	Unallocated	Long Term	50.00	-	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
3	Fund based/Non fund based	Short Term	260.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**
4	Unallocated	Short term	90.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Apr 2017	8.35%	Jul 2022	50.00	[ICRA]AA-(Stable)
NA	Term Loan 2	Mar 2017	8.50%	Mar 2022	25.00	[ICRA]AA-(Stable)
NA	Term Loan 3	Oct 2014	8.75%	Oct 2019	25.00	[ICRA]AA-(Stable)
NA	Long term unallocated	NA	NA	NA	50.00	[ICRA]AA-(Stable)
NA	Cash Credit/Export Credit/WCDL/STL	NA	NA	NA	260.00	[ICRA]A1+
NA	Short term unallocated	NA	NA	NA	90.00	[ICRA]A1+

Source: Ramco Industries Ltd.

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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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