

March 17, 2022

Ramco Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	45.00	45.00	[ICRA]AA- (Stable); Reaffirmed
Long Term - Unallocated	105.00	105.00	[ICRA]AA- (Stable); Reaffirmed
Fund based / Non fund based facilities	145.00	145.00	[ICRA]A1+; Reaffirmed
Short Term - Unallocated	205.00	205.00	[ICRA]A1+; Reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in Ramco Industries Limited's (RIL/ the company) 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) and non-asbestos based roofing products. The ratings also factor in comfortable financial risk profile of the company. RIL reported an increase in revenues by 23% YoY in 9MFY2022 owing to higher revenues from both building products and textile divisions and is expected to register a growth of 14%-16% in FY2022. The operating margins remained healthy at 17.6% in 9MFY2022 and expected to remain between 15-16% for FY2022, driven by healthy margins in the building products and improved margins in textile segment backed by higher realizations, volumes and better absorption of fixed costs.

RIL's capital structure continues to be healthy, adjusted¹ Total outside liabilities (TOL)/ Tangible Net Worth (TNW) at 0.53 times as on September 30, 2021, supported by low debt and high net worth. The low debt along with an improvement in operating margins resulted in healthy debt coverage indicators such as interest cover and TD/OPBDITA 32.8 times and 0.4 times in H1FY2022, which are likely to remain healthy in FY2022-FY2023. Additionally, the rating reflects the company's strong financial flexibility by virtue of being a part of the Ramco Group.

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. RIL procures significant quantity of asbestos fibre from Russia. ICRA notes that the company currently has sufficient asbestos fibre stock which is likely to support the production for the upcoming peak season. However, any prolonged impact of the ongoing Russia-Ukraine conflict on the supply and pricing of asbestos fibre from Russia remains a key monitorable. Access to diversified supplier base in other producing regions (such as Brazil) would mitigate the risk to an extent. Notwithstanding the past track record, the ability of RIL to pass on any sharp increase in asbestos fibre prices to its customers remains to be seen. 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; and the intense competition in the industry.

¹ As a part of the adoption of Ind AS, due to fair value adjustments on investments in associates and other transition adjustments, the net worth in FY2016 was revised upwards by ~Rs. 1760.0 crore. Adjusting for the same and the income from associates (recognised as part of OCI in P&L). Reported TOL/TNW for the same period stood at 0.13 times

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 from its textile segment and the expected growth in the CSB segment, strong financial flexibility and low leverage.

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 and has a healthy market share in South India. RIL has also been increasing its presence in other regions in India in the last few years. Apart from revenues from asbestos based products, accounting for 70% of total revenues, the company's revenues are diversified across other segments such as textiles, calcium silicate board (CSB) and other non-asbestos based products contributing to around 30% of revenues. The proposed capacity expansion in CSB segment by FY2024 is likely to increase the contribution from non-asbestos segment in the medium term. While the company has developed non-asbestos based roofing products, the revenue contribution from the same remains modest. RIL has presence in Sri Lanka, through its subsidiaries, which provides geographical diversification. RIL enjoys healthy market share in the Sri Lankan market.

Comfortable financial risk profile – RIL reported an increase in revenues by 23% YoY in 9MFY2022 owing to higher revenues from both building products and textile divisions and is expected to register a growth of 14%-16% in FY2022. The operating margins remained healthy at 17.6% in 9MFY2022 and expected to remain between 15-16% for FY2022, driven by healthy margins in the building products and improved margins in textile segment backed by higher realizations, volumes and better absorption of fixed costs. RIL's capital structure continues to be healthy, adjusted Total outside liabilities (TOL)/ Tangible Net Worth (TNW) at 0.53 times as on September 30, 2021, supported by low debt and high net worth. The low debt along with an improvement in operating margins resulted in healthy debt coverage indicators such as interest cover and TD/OPBDITA 32.8 times and 0.4 times in H1FY2022, which are likely to remain healthy in FY2022-FY2023.

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, bio-technology etc. The Group constitutes companies such as Ramco Cements Ltd. (rated [ICRA]AA+/Stable/A1+), Ramco Systems Ltd. (rated [ICRA]A/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 Ramco Cements Ltd. (21.23% direct stake and 1.26% through its subsidiary) and Ramco Systems Ltd. (17.78% stake).

Credit challenges

Exposure to regulatory risks associated with asbestos-related products and risks associated with availability of asbestos fibre- RIL's revenues and earnings are exposed to regulatory risk associated with the restrictions or ban on the use of asbestos in the domestic market 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 for RIL.

RIL procures significant quantity of asbestos fibre from Russia. ICRA notes that the company currently has sufficient asbestos fibre stock which is likely to support the production for the upcoming peak season. However, any prolonged impact of the ongoing Russia-Ukraine conflict on the supply and pricing of asbestos fibre from Russia remains a key monitorable. Access to diversified supplier base in other producing regions (such as Brazil) would mitigate the risk to an extent. Notwithstanding the past track record, the ability of RIL to pass on any sharp increase in asbestos fibre prices to its customers remains to be seen.

Demand for FC sheets susceptible to monsoon patterns, rural income levels and threat of substitutes – Demand for asbestos FC sheets primarily comes from rural and semi-urban regions. As the rural income is heavily dependent on monsoon rainfall,

the FC sheet sales are susceptible to volatility in monsoon trends. Moreover, the threat of substitute products such as GI steel sheets limits the company's pricing flexibility to pass on the fluctuations in raw material prices. However, ICRA notes that due to favourable monsoon and rural demand and high steel prices in recent period, the impact has been mitigated to an extent.

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 FY2021). 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 FY2022. The company has annual repayment obligations of ~Rs. 11 crore each in FY2022 and FY2023 and capex plans of Rs. 75 crore in FY2022 and ~Rs. 200 crore in FY2023 and FY2024 towards the new CSB unit in addition to regular maintenance capex. The cash and bank balances stood at ~Rs. 70.0 crore as on September 30, 2021 at the consolidated level and the working capital facilities are moderately utilised. 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 a significant deterioration in the working capital cycle that may weaken the debt coverage metrics with net debt/OPBITA above 1.3 times on a sustained basis. Any regulatory action pertaining to the use of asbestos could also lead to a 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 2)

About the company

RIL is a part of the Chennai-based Ramco Group and is primarily involved in the manufacture of asbestos-based FC sheets, which find application as a roofing material. Apart from FC sheets, RIL is involved in the spinning of cotton yarn and manufacturing of calcium silicate boards. RIL 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

Ramco Industries Limited	Consolidated		
	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	974.1	1,209.4	1067.3
PAT (Rs. crore)	68.9	115.9	106.3
OPBDIT/OI (%)	10.8%	16.3%	17.60%
PAT/OI (%)	7.1%	9.6%	9.96%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	-
Total Debt/OPBDIT (times)	2.3	0.8	-
Interest Coverage (times)	7.2	20.6	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 17, 2022	Jan 29, 2021	Oct 21, 2019	Jul 30, 2018
1	Term Loans	Long-term	45.00	34.02*	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Unallocated	Long-term	105.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund based/Non fund based	Short term	145.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short term	205.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore; *As on March 31, 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - Term Loans	Simple
Long term - Unallocated Limits	Not Applicable
Short term - Fund based/Non fund-based limits	Very Simple
Short term - Unallocated Limits	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, is available on ICRA's 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	Feb 2019	-	FY2025	45.00	[ICRA]AA-(Stable)
NA	Long term – unallocated	NA	NA	NA	105.00	[ICRA]AA-(Stable)
NA	Short term - Fund based/Non fund-based limits	NA	NA	NA	145.00	[ICRA]A1+
NA	Short term - unallocated	NA	NA	NA	205.00	[ICRA]A1+

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sudharsanam Investments Ltd	100.00%	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	21.15%	Equity Method
Rajapalayam Mills Limited	1.73%	Equity Method
Ramco Systems Limited	17.80%	Equity Method
Ramco Industries and Technology Services Limited	1.05%	Equity Method
Madurai Trans Carrier Limited	17.17%	Equity Method
Lynks Logistics Limited	23.78%	Equity Method

Source: RIL annual report FY2021; *step down subsidiary

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