

The Ramco Cements Limited

May 23, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	-	150.00	[ICRA]AA+ (Stable) assigned
Long-term fund based	700.00	700.00	[ICRA]AA+ (Stable) outstanding
Short-term fund based	250.00	250.00	[ICRA]A1+ outstanding
Short-term non-fund based	435.00	435.00	
Commercial Paper	825.00	825.00	
Non-convertible debenture	100.00	-	[ICRA]AA+ (Stable) withdraw
Total	2,310.00	2,360.00	

*Instrument details in Annexure – I

Rating action

ICRA has assigned a long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs. 150.00 crore term loan facilities of The Ramco Cements Limited (TRCL/the company). The outlook on the long-term rating is stable.

ICRA has a rating of [ICRA]AA+ (Stable) (pronounced ICRA double A plus with a stable outlook) outstanding on the Rs. 700.00 crore long-term fund based facilities of TRCL. ICRA also has a rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 250.00 crore short-term fund based facilities, the Rs. 435.00 crore short-term non-fund based facilities and the Rs. 825.00 crore commercial paper programme of the company.

ICRA has withdrawn the [ICRA]AA+ (Stable) rating outstanding on the Rs. 100.00 crore non-convertible debenture of the company as this has been fully repaid and there is no amount outstanding against the rated instrument.

Rationale

The ratings remain supported by TRCL's strong market position in South India; the company's strong financial profile characterised by healthy margins and accruals, conservative debt metrics and comfortable liquidity; and the financial flexibility enjoyed by the company by virtue of its parentage. The ratings are, however, constrained by risks arising from the company's geographic concentration. Also, with the recent trend of increasing petcoke prices, the company's margins and operating profit per tonne (OPBDITA/tonne) have moderated in 9M FY2018. Nevertheless, the company's capital structure, coverage metrics and cash flows are expected to remain strong over the medium term, given the absence of debt-funded capex plans.

Outlook: Stable

The 'stable' outlook reflects that TRCL will continue to maintain its well-entrenched market position in the cement industry and that its margins, debt metrics and liquidity position will continue to remain comfortable in the medium term.

Key rating drivers

Credit strengths

Strong market position in the Southern region - The 'Ramco' brand is prominent in South India, along with other cement brands like Ultratech, Dalmia, Chettinad and Coromandel, to name a few. The company continues to have healthy market shares in Kerala and Tamil Nadu. In the other markets it is present in, TRCL's market share has been improving, with better penetration.

Strong parentage – TRCL is one of the flagship companies of the larger Ramco Group – a conglomerate having presence across textiles, fibre cement sheets and Information Technology, to name a few. While TRCL's accruals are healthy, it also enjoys implicit financial flexibility by virtue of being part of the Ramco Group.

Adequate cement capacities available for future growth - The company has five integrated plants – three in Tamil Nadu, one in Andhra Pradesh and one in Karnataka - with aggregate cement manufacturing capacity of 12.5 million tonnes per annum; these plants are located close to captive limestone mines. Apart from this, TRCL has four grinding units in Tamil Nadu, Andhra Pradesh and West Bengal closer to the consumer markets. With ~70% capacity utilization, the company has adequate capacities to accommodate volume growth over the next few years; TRCL is looking at only adding further grinding capacities of about 3 million in Vizag, Orissa and West Bengal by FY2020, in a bid to reduce outbound logistic costs.

Healthy accruals, conservative capital structure and comfortable liquidity position – The company had net cash accruals of close to Rs. 600 crore for 9M FY2018. In the absence of significant debt-funded capex in 9M FY2018, TRCL's debt levels also remain relatively modest compared to the accruals. The company's capital structure stood at 0.3 times as of December 31, 2017 while its interest coverage was 16.8 times for 9M FY2018; and its cash flows also remain comfortable. With minimal repayments and absence of debt-funded capex going forward, ICRA expects TRCL's financial profile to remain strong in the near to medium term.

Credit weaknesses

Low geographic diversification – The company continues to derive about 75% of its revenues from the five southern states. 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 remain skewed with the southern part of the country; also, it is likely to remain so in the near term. However, with three grinding units in pipeline closer to/in the east market and the anticipated higher penetration in the Orissa and West Bengal regions, the east India pie is likely to witness substantial growth over the medium term.

Increasing trend in petcoke prices have moderated margins in 9M FY2018 – The company's operating margins stood 26.3% for 9M FY2018, as against 31.7% for 9M FY2017, impacted by increase in petcoke prices and higher freight expenses amidst muted realization growth; the OPBDITA/Tonne also moderated to Rs. 1,277 during 9M FY2018 as against Rs. 1,543 for 9M FY2017. The reduction in net margins was lower, aided by improvement in interest expenses; the net margins stood at 14.2% for 9M FY2018 as against 17.6% for 9M FY2017. Despite the decline, TRCL's margins continue to remain strong.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has taken a consolidated view of TRCL and its subsidiary, Ramco Windfarms Limited.

Links to applicable criteria:
[Corporate credit rating methodology](#)
[Rating methodology for cement companies](#)
About the company:

The Ramco Cements Limited (TRCL/the company) is a reputed cement manufacturer in India and markets its products under the 'Ramco' brand. TRCL has an aggregate installed cement capacity of 12.5 million tonnes per annum spread across five facilities in Tamil Nadu, Andhra Pradesh and Karnataka and an additional grinding capacity of 4.0 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 169 MW and 125.95 MW respectively. The company also has a subsidiary, Ramco Windfarms Limited, with a 39 MW windmill capacity.

The company belongs to the larger Ramco group founded in 1938 by Late Mr. P A C Ramasamy Raja and is presently 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 Rajapalayam Mills Limited (rated [ICRA]A-/Stable/[ICRA]A2+), Ramco Industries Limited (rated [ICRA]A+/Stable/[ICRA]A1+) and Ramco Systems Limited (rated [ICRA]A-/Stable/[ICRA]A2+).

Key Financial Indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	3,621.4	3,972.4
PAT (Rs. crore)	545.3	664.0
OPBDIT/ OI (%)	31.3%	30.6%
RoCE (%)	14.7%	16.7%
Total Debt/ TNW (times)	0.7	0.4
Total Debt/ OPBDIT (times)	1.9	1.2
Interest coverage (times)	6.1	11.5

Source: Company, BSE, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					May 2018	Jul 2017	Jun 2016	Jul 2015	
1	Term loans	Long Term	150.00	90.00	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	
2	Long-term fund based	Long Term	700.00			[ICRA]AA+ (Stable)			
3	Short-term fund based	Short Term	250.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Short-term non-fund based	Short Term	435.00						
5	Commercial Paper	Short Term	825.00						
6	Non-convertible debenture	Long Term	100.00	Nil	[ICRA]AA+ (Stable) Withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	

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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term loans	FY2018	7.2%	FY2020	150.00	[ICRA]AA+ (Stable)
Long- term fund based	NA			700.00	
Short-term fund based				250.00	
Short-term non-fund based				435.00	[ICRA]A1+
Commercial Paper				825.00	
Non-convertible debenture				100.00	[ICRA]AA+(Stable) withdrawn

Source: The Ramco Cements Limited

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