October 06, 2020

The Ramco Cements Limited: [ICRA]AA+(Stable) assigned for Rs. 200.00 crore NCD

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	400.00	600.00	[ICRA]AA+ (Stable) assigned for the Rs. 200.00 crore NCD and outstanding on the other facilities
Term loans	1,915.00	1,915.00	
Long-term fund based	735.00	735.00	
Long-term unallocated	185.00	185.00	
Short-term fund based	250.00	250.00	[ICRA]A1+ outstanding
Short-term non-fund based	485.00	485.00	
Commercial Paper	900.00	900.00	
Total	**4,870.00**	**5,070.00**	

**Instrument details in Annexure – I*

Rationale

The ratings draw comfort from The Ramco Cements Limited's (TRCL) strong business profile with a healthy market share in the South Indian cement market and its expanding presence in the eastern markets over the last few years. TRCL's volumes have grown faster than the respective regional growths in most geographies in FY2019 and FY2020, and the company has been able to maintain its healthy margins (operating margin of 22.0% in FY2020), given its strong operating efficiencies. ICRA also draws comfort from the company's exceptional financial flexibility and its conservative capital structure with net gearing of 0.6 times as on March 31, 2020.

For Q1 FY2021, the company reported a 25% contraction in revenues following a decline in volumes, primarily due to the pandemic and the lockdown imposed. However, its OPBDITA/tonne improved to Rs. 1,342 in Q1 FY2021 from Rs. 1,024 for FY2020, following improved realisations and lower power and fuel costs. TRCL is expected to witness sharp volume and revenue decline in full-year FY2021, following the pandemic and weak macroeconomic environment leading to muted housing, construction and infrastructure spending. Nonetheless, its OPBDITA/tonne is expected to improve in FY2021 on a YoY basis, primarily aided by better realisations and lower per tonne fuel costs. The favourable location of the recently commissioned grinding units in Vizag and West Bengal, and the upcoming one in Orissa would lead to a reduction in transit distance for the target markets in eastern India, further supporting profits. ICRA positively factors in the expected growth in the company's eastern region revenues over the medium term, once the grinding and clinker project expansions are completed. While the higher penetration in the Orissa and West Bengal and entry into new markets like Maharashtra is likely to aid in geographic diversification, the extent of reduction in dependence on the southern market, which is at 75% currently, remains to be seen.

The company has a cumulative capex of ~Rs. 3,730 crore outlined for FY2020–FY2022, primarily for its capacity expansion projects to meet the increasing demand. An increase of ~Rs. 900 crore in the total capex commitment for the period FY2020–FY2022 from the Rs. 2,825 crore indicated during the last rating exercise has led to higher debt funding. As a result, TRCL's net debt/OPBDITA has moderated to 2.5x in FY2020 (PY: 1.4x) and is expected to remain high for FY2021 and FY2022. Further, the company has significant repayment obligations of close to Rs. 1,700 crore for the period FY2021–FY2023. However, its financial profile is expected to remain comfortable, supported by healthy accruals.

Key rating drivers and their description

Credit strengths

Strong market position in southern region; increasing penetration in eastern India – 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 maintain a healthy market share in the southern region and has been expanding its presence in the eastern region. TRCL's volumes have grown faster than the respective region growths in most geographies in FY2019 and FY2020; its decline has been lower than that of the market in Q1 FY2021.

Healthy margins and accruals; conservative capital structure – TRCL has strong operational efficiencies, resulting in healthy margins and accruals over the years. The company had an operating profit margin of 22.0% in FY2020 (PY: 21.1%) and it generated net cash accruals of over Rs. 4,200 crore over FY2017–Q1 FY2021. The company's net gearing stood at 0.6 times as on March 31, 2020, while its interest coverage stood at 16.1 times for FY2020 (8.8 times for Q1 FY2021). With comfortable accrual levels, ICRA expects TRCL's financial profile to remain comfortable over the medium term, despite the proposed debt-funded capex and consequent moderation in coverage metrics.

Exceptional financial flexibility – ICRA favourably factors in the lender/investor comfort enjoyed by the company. TRCL had undrawn term loans of Rs. 1,100 crore as on September 10, 2020. The company's recent borrowings were tied-up at relatively competitive interest rates of 3.4% p.a. for its 60-day commercial paper and 6.75% p.a. for term loans.

Credit challenges

Significant debt-funded capex over FY2020–FY2022 – The company has a relatively high capex commitment of ~Rs. 3,730 crore outlined for FY2020–FY2022, predominantly for its proposed capacity expansion projects to meet the increasing demand. The company has set up two grinding units (total 2.0 million tonne capacity) in FY2020 and has one more grinding unit in the pipeline with 1.0 million tonne capacity in FY2021 closer to/in the eastern market in FY2020. TRCL is also expanding its clinker capacities through a brownfield capacity in Jayanthipuram and a greenfield plant Kurnool in Andhra Pradesh (total 3.75 million tonnes capacity) to support additional clinker requirements, given its high capacity utilisation. There is an increase of ~Rs. 900 crore in the total capex commitment for the period FY2020–FY2022 from the Rs. 2,825 crore indicated during the last rating exercise, leading to higher debt funding. As a result, TRCL's net debt/OPBDITA has moderated to 2.5x in FY2020 (PY: 1.4x) and is expected to remain high for FY2021 and FY2022. Further, the company has significant repayment obligations of close to Rs. 1,700 crore for the period FY2021–FY2023. Significant reduction in debt levels and improvement in coverage metrics on a sustained basis once the current capex phase is completed would remain critical.

High geographic concentration in South India – The company derives about 75% of its revenues from the five southern states, which exposes it to region-specific demand risks. 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 towards the southern part of the country. The expected higher penetration in Orissa and West Bengal, and entry into new areas like Maharashtra, is likely to aid in diversification. However, the extent of geographic diversification remains to be seen.

Liquidity Position: Adequate

TRCL's liquidity position has remained **adequate** with positive retained cash flows in the last several years and cumulative accruals of over Rs. 4,200 crore over FY2017–Q1 FY2021. The company had cash and cash equivalents of Rs. 75.0 crore as on June 30, 2020 and its average working capital utilisation as a percentage of drawing power was 64.6% for the period May–August 2020, reducing significantly from 84.5% for the period November 2019–April 2020. As against these sources of cash, TRCL has sizeable debt-funded capex commitment of ~Rs. 3,730 crore over FY2020–FY2022 for capacity enhancements, of which Rs. 1,500 crore is yet to be incurred. Also, TRCL has total repayment obligations of close to Rs. 1,700 crore for FY2021–FY2023 on the existing loans. Despite this, the company's liquidity position is expected to remain adequate over the medium term, supported by its strong operational profile and margins; and exceptional financial flexibility and lender/investor comfort, which are likely to continue going forward as well.

Rating sensitivities

Positive triggers – A rating upgrade is unlikely in the near term, given that TRCL has relatively high debt-funded capex plans in FY2021 and FY2022.

Negative triggers – Negative pressure on TRCL's ratings could emerge with sharp deterioration in earnings or significant rise in net debt on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for cement companies
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidation

About the company

The Ramco Cements Limited (TRCL) 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 tonne per annum, spread across five facilities in Tamil Nadu, Andhra Pradesh and Karnataka. It has an additional grinding capacity of 6.3 million tonne 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 175 MW and 125.95 MW, respectively. The company also has two modest-scale subsidiaries, Ramco Windfarms Limited (with a 39-MW windmill capacity) and Ramco Industrial and Technology Services Limited (which is into transport services, manpower services and IT).

The company is one of the flagship companies of the larger Ramco Group founded in 1938 by Late P A C Ramasamy Raja and is at present 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, Ramco Industries Limited (rated [ICRA]AA-/Stable/[ICRA]A1+) and Ramco Systems Limited (rated [ICRA]A-/Positive/[ICRA]A2+).

Key Financial Indicators (audited)

Consolidated	**FY2019**	**FY2020**
Operating Income (Rs. crore)	5,162.3	5,389.3
PAT (Rs. crore)	507.5	604.4
OPBDIT/ OI (%)	21.1%	22.0%
PAT/OI (%)	9.8%	11.2%
Total Outside Liabilities/ TNW (times)	0.8	1.0
Total Debt/ OPBDIT (times)	1.5	2.6
Interest coverage (times)	20.8	16.1

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	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating		Chronology of Rating History for the past 3 years							
					Date & Rating in FY2021		Date & Rating in FY2020			Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
					06 Oct 2020	23 Sep 2020	26 Nov 2019	08 Nov 2019	30 Jul 2019	26 Mar 2019	03 Oct 2018	23 May 2018	20 Jul 2017	09 Jun 2016
1	Term loans	Long Term	1,915.00	1693.1 (as on Jun 30, 2020)	[ICRA]AA+ (Stable)									
2	Long-term fund based	Long Term	735.00											
3	Short-term fund based	Short Term	250.00		[ICRA]A1+									
4	Short-term non-fund based	Short Term	485.00											
5	Commercial Paper	Short Term	900.00											
6	Non-convertible debenture	Long Term	600.00	395.00	[ICRA]AA+ (Stable)			-	-	-	-	-	[ICRA]AA+ (Stable)	
7	Unallocated	Long Term	185.00		[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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not applicable	Long-term unallocated	NA			185.00	[ICRA]AA+ (Stable)
Not applicable	NCD	NA			200.00	
INE331A07232/ INE331A07224/ INE331A07216/ INE331A07208	NCD	FY2020	7.07%	FY2024	400.00	
	Term loans	FY2018	6.86%	FY2026	1,915.00	
Not applicable	Long- term fund based	NA			735.00	
	Short-term fund based				250.00	[ICRA]A1+
	Short-term non-fund based				485.00	
	Commercial Paper				900.00	

Source: The Ramco Cements Limited

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Ramco Windfarms Limited – Subsidiary	71.50%	Full consolidation
Ramco Industrial and Technology Services Limited – Subsidiary	94.11%	
Ramco Industries Limited - Associate	15.43%	Equity method
Ramco Systems Limited - Associate	17.70%	
Rajapalayam Mills Limited - Associate	0.35%	
Madurai Trans Carrier Limited - Associate	29.86%	
Lynks Logistics Limited - Associate	46.21%	

Source: The Ramco Cements Limited

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