January 29, 2021

Ramco Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans/ ECBs	90.00	45.00	[ICRA]AA-(Stable); reaffirmed
Long term proposed facilities	60.00	105.00	[ICRA]AA-(Stable); reaffirmed
Fund based / Non fund based	210.00	145.00	[ICRA]A1+; reaffirmed
Short term proposed facilities	140.00	205.00	[ICRA]A1+; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers Ramco Industries Limited's (RIL/ the company) extensive track record and its established position in the domestic asbestos-based fibre cement (FC) sheet industry. It also notes its diversification efforts on product segments such as calcium silicate boards (CSB) and non-asbestos based roofing products. Additionally, the rating reflects the company's strong financial flexibility by virtue of being a part of the Ramco Group. ICRA takes note of the moderation in revenue, which declined ~8% at the standalone level in FY2020, because of a dip in building product and textile segment revenue in the aftermath of the Covid-19 pandemic. The pandemic-induced lockdown impeded March sales, a seasonally strong demand month. However, the revenue decline was a marginal ~6% at the consolidated level as the performance of the Sri Lankan subsidiary offset the impact. In H1FY2021, the revenue growth of the standalone entity remained largely flat, despite the disruptions caused by the Covid-19 pandemic related containment measures, because of the improved realisation in the building product segment, aided by robust rural demand for asbestos roofing sheet on the back of good rainfall. However, other segments such as CSB and textile witnessed contraction. The profit margin also witnessed some improvement during the period, aided by improved realisation in the FC sheet segment and other cost savings. The capitalisation and coverage metrics continued to be healthy.

ICRA also draws comfort from the substantial market value of RIL's investments in Group companies (especially Ramco Cements Ltd.), which has supported its bottom line via regular dividend payments.

The ratings, however, remain constrained by the stiff industry competition, 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 is exposed to the increasing threat of asbestos mining being proscribed in countries from where the raw material is at present imported and any potential restriction on asbestos usage in the domestic market in the medium to long term. Further, the company continues to extend corporate guarantee to weaker group entities and any potential devolvement of guarantee remains a rating sensitivity.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that RIL will continue to benefit from its extensive track record and its established position in the domestic asbestos-based FC sheet industry and the diversification benefits arising from its growth in the CSB segment.

Key rating drivers and their description

Credit strengths

Extensive track record in FC sheet industry – RIL has an extensive track record in manufacturing asbestos-based fibre cement sheets 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.

Focus on product diversification – The share of asbestos-based product remains high at ~60-65% of the revenues. However, in the last few years, with the growth in sales from the CSB segment, the share of asbestos-based products has moderated from ~70% levels witnessed in the past. Further, the textile segment usually accounts for ~14-15% of its revenues, providing diversification benefits. The company has developed non-asbestos based roofing products. However, the revenue contribution from the same remains modest at present.

Covid-19 pandemic and related containment measures impeded sales in FY2020, particularly in March, which is typically a strong demand period. The adverse impact continued in H1FY2021, with sales in segments such as textile and CSB witnessing contraction; however, the impact was partly offset by growth in the FC sheet segment, driven by improved realisation and robust rural demand due to good rainfall. With the easing of containment measures, the performance in other segments has been witnessing some recovery. Ramco Industries Limited has presence in Sri Lanka, through its subsidiaries, which provides geographical diversification. RIL enjoys healthy market share and profit margin in the Sri Lankan market. In H1FY2021, the Sri Lankan sales have also remained healthy, despite the pandemic onslaught.

Financial profile characterised by healthy capital structure and coverage metrics – RIL's capital structure and coverage indicators continued to be healthy, with standalone gearing of 0.1 times as on September 30, 2020 and 0.31 times as on March 31, 2020 compared to 0.25 times as on March 31, 2019. The consolidated gearing stood at 0.03 times as on September 30, 2020 and 0.07 times as on March 31, 2020 (PY: 0.06). 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. 1740.0 crore. Adjusting for the same and the income from associates (recognised as part of OCI in P&L), the gearing stood at 0.28 times at the consolidated level as on March 31, 2020, compared to 0.23 times as on March 31, 2019. The coverage indicators such as interest cover and TD/OPBDITA, improved in H1FY2021 and accordingly stood at 15.8 times and 1.0 time, respectively. In FY2020, the interest cover and TD/OPBDITA stood at 5.1 times and 3.2 times, respectively, (PY: 6.9 times and 1.8 times, respectively) for the standalone entity. Similarly, the interest cover and TD/OPBDITA stood at 18.8 and 0.41, respectively, in H1FY2021 and 7.2 times and 8.3 times, respectively, in FY2020, (8.5 times and 1.5 times, respectively) for the consolidated entity.

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 cotton and synthetic yarn, cement, 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-/Positive/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 the Ramco Group and the substantial market value of its investments in Ramco Cements Ltd. (21.02% direct stake and 1.26% through its subsidiary) and Ramco Systems Ltd. (17.82% stake).

Credit challenges

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.

Intense industry competition– 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. In addition, the margin of the company's textile segment moderated due to higher raw material prices and intense competition from fragmented and established players.

Dependence on imported raw materials leads to susceptibility to exchange rate movements – As the company imports raw materials such as asbestos fibre, its margins are exposed to adverse exchange rate movements. However, RIL hedges on a case-by-case basis, thereby mitigating the impact to a certain extent.

Long-term threat 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 at present being imported and any potential restriction on asbestos usage in the domestic market over the long term. In November 2017, the mining of asbestos in Brazil, one of the key producing countries, was 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 the medium to long term for RIL.

Support in the form of corporate guarantees to Group companies – RIL continues to extend corporate guarantees to one of its Group entities namely Sri Harini Textiles Limited. The contingent liabilities arising from this corporate guarantee was at Rs. 46.3 crore as on March 31, 2020. Any potential crystallisation of the liability may have an adverse impact on its credit metrics and is a rating sensitivity factor.

Liquidity position: Strong

RIL has a track record of positive fund flow from operations in the last few years and the trend is expected to continue in FY2021, despite the impact of the Covid-19 pandemic. The company has repayment obligations of ~Rs. 30.2 crore and capex plans worth Rs. 75 crore in FY2021; however, the liquidity profile remains strong aided by expected healthy cash accruals, robust unencumbered cash and bank balances (~Rs. 62.5 crore as on March 31, 2020 at consolidated level) and unutilised working capital facilities with moderate utilisation of limits. The liquidity profile is supported by high market value of investments in other Group entities (Rs. to Rs 2,571.10 crore book value and Rs. 4661.4 crore market value as on March 31, 2020), which improves the company's financial flexibility.

Rating sensitivities

Positive triggers – Consistent improvement in sales and profit margins, backed by increase in share of value-added products and sustained moderation in dependence on asbestos products, since latter is vulnerable to risk of regulatory changes in the long term, may lead to a rating upgrade.

Negative triggers – The ratings may witness downward pressure if substantial decline in cash accruals, or large debt-funded capital expenditure, stretch in working capital intensity or devolvement of contingent liabilities weakens its liquidity profile. The ratings may also be impacted if there is any regulatory action pertaining to use of asbestos.

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 and the corporate guarantees extended to other group entities

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. The FC sheets division contributes ~60-65% to RIL's revenues. 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.

In FY2020, at the consolidated level, the company reported a net profit of Rs. 68.9 crore on an operating income (OI) of Rs. 974.1 crore compared to a net profit of Rs. 74.5 crore on an OI of Rs. 1036.5 crore in the previous year. At the standalone level, its net profit stood at Rs. 65.5 crore on an OI of Rs. 826.3 crore, against a net profit of Rs. 73.2 crore on an OI of Rs. 897.8 crore.

Key financial indicators (audited)

Ramco Industries Limited	Standalone			Consolidated		
	FY2019	FY2020	H1 FY2021*	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	897.8	826.3	479.5	1,036.5	974.1	566.0
PAT (Rs. crore)	73.2	65.5	57.1	74.5	68.9	57.4
OPBDIT/OI (%)	11.5%	9.1%	18.1%	12.4%	10.8%	18.5%
RoCE (%)	12.3%	10.8%	18.1%	3.8%	3.5%	5.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.53	0.61	0.44	0.13	0.16	0.12
Total Debt/OPBDIT (times)	1.8	3.2	1.0	1.5	2.3	0.8
Interest Coverage (times)	6.9	5.1	15.6	8.5	7.2	18.8
DSCR (times)	2.8	2.6	3.7	3.0	2.8	3.9

**Published H1 FY2021 results,*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Jan 29, 2021	Oct 21, 2019	Jul 30, 2018	Jul 03, 2017
1	Term Loans/ECBs	Long-term	45.00	45.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Unallocated	Long-term	105.00	105.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3	Fund based/Non fund based	Short term	145.00	145.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short term	205.00	205.00	[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 click here

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	Cash Credit/Export Credit/WCDL/STL	NA	NA	NA	145.00	[ICRA]A1+
NA	Short term unallocated	NA	NA	NA	205.00	[ICRA]A1+

Source: *Company*

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	21.05%	Equity Method
Rajapalayam Mills Limited	1.73%	Equity Method
Ramco Systems Limited	17.87%	Equity Method
Ramco Industries and Technology Services Limited	1.05%	Equity Method
Madurai Trans Carrier Limited	17.17%	Equity Method
Lynks Logistics Limited	20.44%	Equity Method

Source: *RIL annual report FY2020 *step down subsidiary*

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