

October 21, 2019 <sup>Revised</sup>

## 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	100.00	90.00	[ICRA]AA-(Stable); reaffirmed
Long term proposed facilities	50.00	60.00	[ICRA]AA-(Stable); reaffirmed
Fund based / Non fund based	260.00	210.00	[ICRA]A1+; reaffirmed
Short term proposed facilities	90.00	140.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>500.00</b>	<b>500.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation considers Ramco Industries Limited's (RIL) extensive track record and established position in the domestic asbestos-based fibre cement (FC) sheet industry. It also notes the diversification efforts through focus on product segments like calcium silicate boards (CSB) and non-asbestos based roofing products, along with its financial flexibility arising from being a part of the Ramco Group. ICRA takes note of the healthy revenue growth of ~15% at the standalone level in FY2019, driven by growth in FC sheets and CSB segment and strong export sales in the textiles segment. However, the revenue growth at the consolidated level was at ~11% due to lower growth at Sri Lankan subsidiary. In Q1 FY2020, the revenue growth for the standalone entity has remained flat. The profitability margins continue to be supported by sustained savings in raw material procurement costs and moderation in interest costs owing to reduction in debt levels. The capitalisation and coverage metrics continued to witness improvement and remain 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 stiff competition 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 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 entity 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 established position in the domestic asbestos-based FC sheet industry and diversification benefits arising from 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 the sales from CSB segment, the share of asbestos-based products has moderated from ~70% levels witnessed in the past. Further, the textile segment accounting for ~14-15% of its revenues provides diversification benefits. The company has developed non-asbestos based roofing products. However, the revenue contribution from the same remains modest at present. It has presence in Sri Lanka, through its subsidiaries, which provides geographical diversification. RIL enjoys healthy market share and profit margin at the Sri Lankan market, although the performance in FY2019 was impacted by exogeneous factors in the region.

**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 0.25 times as on March 31, 2019 compared to 0.32 times as on March 31, 2018. The consolidated gearing stood at 0.06 times as on March 31, 2019 (PY: 0.08). As a 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 (recognised as part of OCI in P&L), the gearing stood at 0.23 times at the consolidated level as on March 31, 2019, compared to 0.28 times as on March 31, 2018. The coverage indicators such as interest cover and TD/OPBDITA, improved in FY2019 due to reduction in debt and interest expenses and stood at 6.9 times and 1.8 times, respectively, (PY: 3.5 times and 2.8 times, respectively) for the standalone entity and 8.5 times and 1.5 times, respectively, (5.4 times and 1.8 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 like cotton and synthetic yarn, cement, building products, software solutions, wind-energy, bio-technology etc. The Group constitutes of companies such as 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 the Ramco Group and its substantial market value of its investments in Ramco Cements Ltd. (20.93% direct stake and 1.26% 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 FC sheets is primarily 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. 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.

**Intense competition in industry** – 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 regions. This leads to RIL incurring higher freight costs to cater to these markets impacting its profitability metrics, as compared to its competitors. In addition, the company witnessed moderation in margins in the textile segment owing 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** – Raw materials such as asbestos fibre is imported by the company, exposing its margins to any 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, 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 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 remained at Rs. 46.3 crore as on March 31, 2019. Any potential crystallisation of the liability may have adverse impact on its credit metrics and remain a rating sensitivity factor.

### Liquidity position: Strong

RIL's liquidity position has remained strong with positive retained cash flows, healthy unencumbered cash and bank balances (~Rs. 63 crore as on March 31, 2019) and unutilised working capital facilities (average working capital for the 12 months period ending June 2019 stood at 16% of sanctioned limits and 43% of DP). The company has repayment obligations of ~Rs. 30 crore and capex plans for Rs. 75 crore in FY2020. However, the liquidity position is expected to remain strong backed by healthy cash accruals. The liquidity profile is supported by high market value of investments in other Group entities (Rs. 2440.3-crore book value and Rs. 3557.9-crore market value as on March 31, 2019), which improves the company's financial flexibility.

### Rating sensitivities

**Positive triggers** – Sustained 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 if 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	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation/Standalone	Ratings are based on consolidated financial statements of the rated entity.

### 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 to ~60-65% of 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 [www.icra.in](http://www.icra.in)

marketing FC sheets in the country. The Ramco Group of companies has interests in cement, FC sheets, textiles and information technology.

In FY2019, at the consolidated level, the company reported a net profit of Rs. 74.5 crore on an operating income (OI) of Rs. 1036.5 crore compared to a net profit of Rs. 78.8 crore on an OI of Rs. 932.0 crore in the previous year. At the standalone level, its net profit stood at Rs. 73.2 crore on OI of Rs. 897.8 crore, against net profits of Rs. 72.1 crore on OI of Rs. 783.8 crore.

### Key financial indicators (audited)

	Standalone		Consolidated	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	783.8	897.8	932.0	1,036.5
PAT (Rs. crore)	72.1	73.2	78.8	74.5
OPBDIT/OI (%)	9.6%	11.5%	12.6%	12.4%
RoCE (%)	13.1%	12.1%	4.3%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.62	0.59	0.15	0.15
Total Debt/OPBDIT (times)	2.8	1.8	1.8	1.5
Interest Coverage (times)	3.5	6.9	5.4	8.5
DSCR	2.0	2.8	2.2	3.0

Source: Annual Report 2019 – RIL

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument	Current Rating (FY2020) Type	Current Rating (FY2020)		Rating History for the Past 3 Years			
		Amount Rated	Amount Outstanding	Rating 21-Oct-2019	FY2019 30-Jul-2018	FY2018 03-Jul-2017	FY2017 07-Nov-2016
1 Term Loans/ECBs	Long Term	90.00	90.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)
2 Unallocated	Long Term	60.00	60.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)
3 Fund based/Non fund based	Short Term	210.00	210.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4 Unallocated	Short term	140.00	140.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Amount in Rs. crore

### 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](http://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
NA	Term Loan 1	Apr 2017	-	Jul 2022	28.00	[ICRA]AA-(Stable)
NA	Term Loan 2	Mar 2017	-	Mar 2022	3.00	[ICRA]AA-(Stable)
NA	Term Loan 3	Oct 2014	-	Oct 2019	14.00	[ICRA]AA-(Stable)
NA	Term Loan 4	Feb 2019	-	June 2024	45.00	[ICRA]AA-(Stable)
NA	Long term unallocated	NA	NA	NA	60.00	[ICRA]AA-(Stable)
NA	Cash Credit/Export Credit/WCDL/STL	NA	NA	NA	210.00	[ICRA]A1+
NA	Short term unallocated	NA	NA	NA	140.00	[ICRA]A1+

Source: RIL

## 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 RamcoRoofings Lanka Private Ltd. *	Step down subsidiary	Full Consolidation
The Ramco Cements Ltd	22.51%	Equity Method
Rajapalayam Mills Limited	1.81%	Equity Method
Ramco Systems Limited	21.83%	Equity Method
Ramco Industries and Technology Services Limited	22.02%	Equity Method
Madurai Trans Carrier Limited	23.82%	Equity Method
Lynks Logistics Limited	11.32%	Equity Method

\*step down subsidiary of Sri Ramco Lanka Private Ltd. with 98.73% stakes in the company

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## Corrigendum:

Document dated October 21, 2019 has been corrected with the revision as detailed below:

- On page no 4, in rating history table, dates of the previous press releases have been introduced in addition to month and year. Also, the year for FY2018 has been corrected in the rating history for the past 3 years section.

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