May 17, 2024

Ramco Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	95.00	20.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Fund-based/Non-fund based facilities	145.00	165.00	[ICRA]A1+; reaffirmed
Short-term – Unallocated	255.00	315.00	[ICRA]A1+; reaffirmed
Long-term – Unallocated	5.00	0.00	-
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings factors in Ramco Industries Limited's (RIL) comfortable financial risk profile with low leverage, moderate capex plans and healthy debt coverage metrics. RIL's capital structure continues to be healthy, as reflected by estimated total outside liabilities (TOL)/ tangible net worth (TNW) at below 0.2 times in the medium term, supported by low debt and high net worth. Consequently, the company's debt coverage metrics are expected to be healthy as reflected by interest coverage of above 6.5 times in the medium term. With likely improvement in profitability levels from FY2025, the total debt/EBITDA is projected to improve to around 1.3-1.4 times (PY: 2 times) in FY2025. The ratings continue to note the 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), non-asbestos based roofing products and presence in the Sri Lankan market. The ratings reflect the company's strong financial flexibility by virtue of being a part of the Ramco Group.

The ratings, however, consider the pressure on RIL's profitability levels, wherein the operating margins declined to 11.4% in FY2023 and further to 10.2% in 9M FY2024 from 17.0% in FY2022 on account of an increase in raw material prices in the building division, logistics challenges amid global headwinds and moderation in performance of the textile segment. Consequently, the operating margins is likely to moderate to around 10.0-10.5% in FY2024 (PY: 11.4%). Nevertheless, the operating margins is projected to improve to around 11.0 – 11.5% in FY2025 on the back of expected easing of inputs costs, improvement in the performance of the textile division and the Sri Lankan subsidiary.

The ratings consider the vulnerability of RIL's revenues and margins to 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. 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.

ICRA notes that the company has deferred the plans to do capex of Rs. 200 crore in CSB segment for setting up a manufacturing unit (which was expected to be funded by debt of Rs. 150 crore) to H2 FY2025 against the earlier plan of FY2024 on the back of uncertain market conditions.

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 and healthy leverage and debt coverage metrics.

Key rating drivers and their description

Credit strengths

Healthy leverage and debt coverage metrics – RIL's capital structure continues to be healthy, as reflected by the estimated TOL/TNW at below 0.2 times in the medium term, supported by low debt and high net worth. Consequently, the company's debt coverage metrics are likely to be healthy as reflected by interest coverage of above 6.5 times in the medium term. With expected improvement in profitability levels from FY2025, the total debt/EBITDA level is projected to improve to around 1.3-1.4 times (PY: 2 times) in FY2025.

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. It has been increasing its presence in other regions in India over the last few years. The company has a diversified revenue profile with asbestos-based products accounting for 70% of the total revenues, while other segments such as textiles, CSB and other non-asbestos based products contribute to around 30% of revenues. It also has plans for expansion in CSB segment in near term, which could result in increase in revenues and better contribution from the non-asbestos segment. RIL has presence in Sri Lanka, through its subsidiaries, which provides geographical diversification to an extent.

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, biotechnology, etc. The Group constitutes companies such as Ramco Cements Ltd. (rated [ICRA]AA+/Stable/A1+), Ramco Systems Ltd. (rated [ICRA]BBB+/Negative/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. (21.4% direct stake and 1.3% through its subsidiary) and Ramco Systems Ltd. (20.1% stake as on March 31, 2024).

Credit challenges

Pressure in profitability amid increase in raw material prices and moderation in performance in textile segment – The company's operating margins declined to 11.4% in FY2023 and further to 10.2% in 9M FY2024 from 17.0% in FY2022 on account of increase in raw material prices in the building division, logistics challenges amid global headwinds and moderation in performance of the textile segment. RIL has limited flexibility to pass on the input price hikes to its customers because of intense competition in the FC sheet industry, impacting the margins to an extent. The textile division revenues decreased by 26% YoY in 9M FY2024 due to subdued demand because of recessionary pressure across the export countries. Additionally, the elevated cotton prices resulted in moderation in profitability of the textile segment, wherein PBIT margins reduced to 3.2% in FY2023 and negative 4.3% in 9M FY2024 from 16.6% in FY2022. Consequently, its profitability is likely to moderate to around 10.0-10.5% in FY2024 (PY: 11.4%). Nevertheless, the operating margins is projected to improve to around 11.0 – 11.5% in FY2025 on the back of expected easing of inputs costs, improvement in performance of textile division and Sri Lankan subsidiary.

Exposure to regulatory risks on asbestos-related products with cyclicality in rural markets – RIL's revenues and margins are vulnerable to regulatory risks associated with the threat of ban on the usage 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. Further, given the nature of the product offerings by RIL, the rural markets are the key consumers for asbestos sheets manufactured by the company. As a result, its business operations remain exposed to demand conditions of the rural economy, which is dependent on monsoons, MSP movement and farm productivity. Any adverse movements in the demand for RIL's products from the rural markets could impact the revenue base and, thus, its profitability.

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. It is exposed to adverse exchange rate movements as the entire asbestos requirement is imported by the company. However, the exports act as natural hedge against imports (10% of imports are covered by exports in FY2023) and RIL also hedges on a case-by-case basis, thereby mitigating the impact to a certain extent. The company faces intense competition in the FC sheet segment due to low entry barriers. Moreover, it has to compete with established players whose manufacturing units are close to high growth markets in northern and eastern regions.

Environmental and Social Risks

While some forms of asbestos fibre pose health risks to individuals who are exposed, asbestos cement manufactured using white chrysotile asbestos is of relatively low risk. All the manufacturers are required to follow strict environmental norms to operate. Given the safety and environmental health-related concerns associated with asbestos, the industry may be exposed to the risk of tightening regulatory norms. Any ban on the mining of asbestos across countries may expose the company to risk of non-availability of raw material. Any ban on the usage of asbestos due to environmental or health concerns could have a significant impact on the operations of FC segment, which is one of the major contributors to RIL's operating profits.

Liquidity position: Strong

The company's liquidity position is strong. It has principal repayment obligations of ~Rs. 5.1 crore in Q4 FY2024 and Rs. 11.5 crore in FY2025, which can be comfortably serviced from its estimated cash flow from operations. The cash and bank balance stood at ~Rs. 62.3 crore as of September 2023, at the consolidated level, and the working capital facilities are moderately utilised with cushion of Rs. 260 crore as of February 2024. 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 significant deterioration in working capital cycle weaken the debt coverage metrics with total debt/OPBIDTA above 1.75 times on a sustained basis. Any regulatory action pertaining to the use of asbestos could also lead to a rating 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 II)

About the company

Ramco Industries Limited (RIL), part of the Chennai-based Ramco Group, primarily manufactures asbestos-based fibre cement (FC) sheets, which find major application as a roofing material. Apart from FC sheets, RIL is engaged in spinning of cotton yarn and manufacturing calcium silicate boards. RIL has a 100% subsidiary incorporated in Sri Lanka - Sri Ramco Lanka (Private) Limited – involved in the manufacturing and marketing of FC sheets in the country. The Ramco Group of Companies has interests in cement, FC sheets, textiles and information technology.

Key financial indicators (audited)

RIL	FY2022	FY2023	9MFY2024*
Operating income	1459.8	1457.5	1136.4
PAT	126.5	106.1	53.3
OPBDIT/OI	17.0%	11.4%	10.2%
PAT/OI	8.7%	7.3%	4.7%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	-
Total debt/OPBDIT (times)	0.9	1.9	2.0
Interest coverage (times)	28.8	7.9	6.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 17, 2024	Apr 12, 2023	-	Mar 17, 2022
1	**Term loans**	Long term	20.00	19.19	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	-	**[ICRA]AA- (Stable)**
2	**Unallocated**	Long term	0.00	--	-	**[ICRA]AA- (Stable)**	-	**[ICRA]AA- (Stable)**
3	**Fund-based/Non-fund based**	Short term	165.00	--	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**
4	**Unallocated**	Short term	315.00	--	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Short-term – Fund-based/Non-fund based	Very Simple
Short-term – Unallocated	NA

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 are available on ICRA's website: [Click Here.]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan**	FY2019-FY2023	NA	FY2025-FY2028	20.00	[ICRA]AA-(Stable)
-	**Short-term – Fund-based/non-fund based**	-	-	-	165.00	[ICRA]A1+
-	**Short-term – Unallocated**	-	-	-	315.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sudharsanam Investments Ltd	100%	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	22.62%	Equity Method
Rajapalayam Mills Limited	1.73%	Equity Method
Ramco Systems Limited	17.74%	Equity Method
Ramco Industries and Technology Services Limited	1.05%	Equity Method
Madurai Trans Carrier Limited	17.17%	Equity Method

*Source: Company; ICRA research; *step-down subsidiary.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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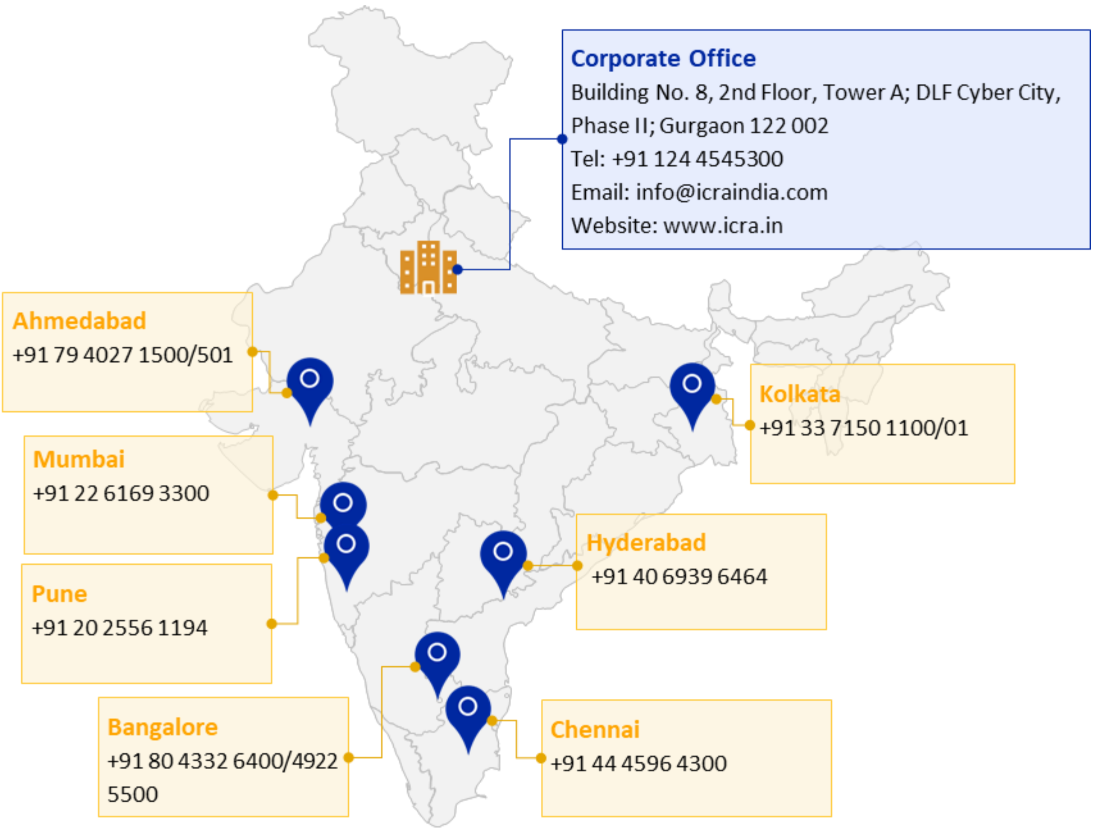

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