Ramco Industries Limited

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Ref. No.Cr.RatingInt./CRISIL/Reg30
31.1.2023

National Stock Exchange of India Limited Exchange Plaza, 5th Floor Bandra-Kurla Complex, Bandra (E) Mumbai - 400 051 Scrip Code: RAMCOIND EQ
BSE Limited Floor 25, "P.J.Towers" Dalal Street Mumbai – 400 001 Scrip Code: 532369

Dear Sirs,

Sub : **Disclosure under Regulation 30 of SEBI (LODR) Regulations, 2015 – Intimation of Reaffirmation of Credit Rating – reg.**

In terms of Regulation 30 of SEBI (LODR) Regulations, 2015, we would like to inform you that CRISIL, the Rating Agency, has reaffirmed the Credit Rating on Rs.100 Cr. Commercial Paper of the Company, as detailed below :-

Instrument	Rating Action
Commercial Paper - Rs.100 Cr.	CRISIL A1+ (reaffirmed)

We request you to please take note of the above. The Letter (Rating Rationale) received from CRISIL in this regard is enclosed.

Thanking you

Yours faithfully
For RAMCO INDUSTRIES LIMITED

SOMASUNDARAM BALA MURUGA SUNDARAM
Digitally signed by SOMASUNDARAM BALA MURUGA SUNDARAM
Date: 2023.01.31 12:15:35 +05'30'

S. Balamurugasundaram
Company Secretary & Legal Head

Encl. : a.a.

CRISIL
Ratings

Rating Rationale

January 30, 2023 | Mumbai

Ramco Industries Limited

Rating reaffirmed

Rating Action

Rs.100 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper programme of Ramco Industries Limited (RIL).

For the half year ended September 30,2022, RIL (on a consolidated basis) registered a revenue growth of 21%, over the corresponding period of fiscal 2022, however the operating profits declined to Rs.83 crores(compared to Rs.113 crores in the first half of fiscal 2022). Revenue growth was driven by healthy demand from rural markets, and substitution demand, with the price of steel products (substitutes) on the higher side. Profitability moderation is due to elevated freight costs due to Russia-Ukraine crisis and effect of rupee depreciation on imports in fiscal 2023. Revenue growth was impacted by moderation in demand for Asbestos cement sheets (ACS) in Sri Lanka where the company derives 12-15% of the revenues.

The demand for asbestos sheets is expected to remain steady with anticipated increase in rural income over the near to medium term, supported by good crop output. However, the profitability for the full year is expected to moderate from fiscal 2022 levels due to increase in asbestos base price by 30% in CY 2023 and elevated supply chain costs. Increasing contribution of revenues from Calcium Silicate Board (CSB) segment (~15% of total revenues in fiscal 2022) will partially mitigate the impact on margins as CSB segment commands higher margins. Demand in textile segment has also moderated in current fiscal due to recessionary environment in Europe and US markets and the cotton yarn spreads have come down, thereby affecting the profitability in textile segment as well. Overall, while demand growth is expected to be steady over the medium term, operating profitability is expected to range between 9-11%, mainly due to higher asbestos fibre costs, and lower pass-on of the same to customers, due to intense competition from substitute products.

RIL is also contemplating investing Rs.200 crores to set up a CSB plant in Madhya Pradesh and is expected to avail Rs.150 crores of debt for the project. The decision will be taken post the first quarter of next fiscal and will take 12-18 months for completion. The project will increase the present CSB capacity by 40-50% which will support in increasing the contribution of CSB in overall revenues.

RIL has increased the inventory levels of asbestos fiber stocks due to uncertainties in supply, resulting in short term debt doubling to ~Rs. 400 crores in current fiscal compared to previous fiscal. Despite the increase, the debt protection metrics will remain healthy as the balance sheet has become strong due to healthy performance over the past 2 fiscals and progressive repayment of debt. Also, the debt protection metrics, while moderating due to lower profitability, will still remain healthy despite possibility of debt addition for the board project

The rating continues to reflect RIL's established position in the domestic asbestos cement (AC) roofing market and improving presence in the Sri Lankan market, and healthy revenue diversity through presence in textiles, calcium silicate boards, and wind power segments. The rating also considers the company's adequate operating efficiencies, and its healthy financial risk profile, driven by steady cash accrual, prudent working capital management, and moderate expansion plans. The significant value of investments in listed Ramco group companies including The Ramco Cements Limited (RCL; rated 'CRISIL A1+') additionally supports RIL's financial flexibility. These strengths are partially offset by dependence of AC roofing business on rural spending, availability and pricing of key raw material (asbestos fibre), exposure to intense competition from peers as well as from substitute steel products. The company is also exposed to regulatory risks on manufacture and usage of asbestos, as well as change in policies of key asbestos-producing nations, given that India imports its entire asbestos requirement.

Analytical Approach

For arriving at the rating, CRISIL Ratings has combined the business and financial risk profiles of RIL and its subsidiaries, held directly or indirectly, as all the entities share a common management, operate in similar lines of business, and have significant operational and financial linkages. CRISIL Ratings considers these entities as being strategic to RIL in view of their strong integration with the company's operations. Further, outstanding amounts against corporate guarantees provided to weaker Ramco group companies have been included as debt of RIL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

- **Established position in the domestic AC roofing market:** RIL has been in the domestic AC roofing business for more than 50 years and is one of the four large players, which together account for about 75% of overall market share. A pan-India presence with manufacturing facilities across the four regions has helped entrench the 'Ramco' brand and also shield operations from regional demand-supply mismatches. During fiscal 2022, the company has further expanded its market channels and distributor base for better market reach, especially in West India. It continues to leverage its brand equity for AC roofing products in Sri Lanka, where it is one of the leading players.

- **Healthy revenue diversity and adequate operating efficiencies:** While the domestic AC roofing business continues to be the mainstay, contributing around 65-70% to overall revenue during fiscal 2022, the company also manufactures cotton yarn (16%) and calcium silicate boards (CSBs; 15%). AC roofing and CSBs comprise the building products division. Since 2017, the company has ventured into implementing turnkey projects for roofing solutions in India and Sri Lanka, which will provide additional opportunities for the future. Price competitiveness, stronger diversity in revenue, and improvement in the Sri Lankan unit has helped mitigate the slow momentum of demand in the domestic industry. CRISIL Ratings believes that improving revenue and segmental diversity should mitigate significant fluctuation in the company's performance over the medium term.

- **Healthy financial risk profile:** RIL's financial risk profile is marked by healthy networth and improved debt protection metrics over the last two fiscals till 2022. The adjusted gearing (including guarantees provided to group companies) was healthy at 0.21 times as on March 31, 2022 (against 0.16 times at March 31, 2021), while adjusted debt to earnings before interest tax, depreciation and amortization (EBITDA) stood at 1.00 times in fiscal 2022 (0.80 times in fiscal 2021). The net cash accrual to total debt and interest coverage ratios also remains healthy at about 0.65 time and 26.99 times, respectively, in fiscal 2022 as compared to 0.88 time and 22.70 times, respectively, in fiscal 2021. The ratio of total outside liabilities to total networth (TOL/TNW) is healthy at <0.5 times for fiscal 22.

  Cash generation to remain healthy at Rs.80-100 crores despite the expected moderation in operating profitability to 9-11% over the near to medium term. Debt metrics however are expected to moderate but still remain healthy due to additional debt for CSB project, higher inventory levels and lower profitability. Also, CRISIL Ratings does not expect an increase in guarantees provided to group entities, as the performance of these entities is gradually improving. Nevertheless, this would remain a key monitorable.

- **Financial flexibility supported by investments in Ramco group companies and being a leading company of the group:** RIL is the second-largest company in the Ramco group after RCL and enjoys a strong relationship with the lending community, allowing it to raise low-cost debt. Its large portfolio of investments in listed group entities, which is completely unpledged, was about Rs 3,934 crore (market value) as on January 20, 2023. Though these investments are strategic in nature, they lend a good amount of financial flexibility and support liquidity to offset any financial exigency. A moderate portion of the investments were divested during fiscals 2015 and 2016 to support cash flows and reduce debt.

Weaknesses:

- **Exposure to regulatory threat of ban on manufacture or use of asbestos in end-user markets and in key asbestos-producing nations:** As around 75% of revenue is generated from the sale of AC roofing, the company is exposed to the risk of a ban on mining and use of asbestos in Russia and Kazakhstan (which are the largest exporters of this mineral). Brazil and Canada, which were among the world's largest producers, have already banned the mining and sale of asbestos in 2017 and 2019, respectively. In India, only white asbestos (known as chrysotile) fibre is used, as blue and brown asbestos have been banned. Furthermore, all forms of asbestos mining are banned in the country. In the current fiscal, supplies of asbestos fibre from Brazil have been impacted due to a legal issue with the producer, while the ongoing Russia-Ukraine war, has resulted in cost of fibre from these markets going up. Future movements in asbestos fibre, as well as regulatory changes concerning asbestos mining and usage will remain monitorables.

- **Dependence on rural spending, and exposure to intense competition from peers and substitute products:** Demand for AC roofing is derived from rural spending on household construction, as well as investment in industrial construction, thus exposing the company to rural purchasing power and economic cycles. It also faces stiff competition from peers given the modest growth and the presence of 19 players in the industry. Furthermore, AC roofing manufacturers face stiff competition from manufacturers of galvanized iron (GI) roofing sheets, which have emerged as a viable alternative for AC roofing. Any sharp decline in the price of GI sheets will impact demand for AC sheets.

  During fiscal 2023, prices of raw materials for AC roofing (asbestos fibre and cement) increased. The operating margin remains vulnerable to any further sharp price volatility or currency fluctuations. While the concentration risk has been mitigated by diversification into CSBs and steadily increasing presence in Sri Lanka, the AC sheet business in India will continue to remain the mainstay over the medium term and thus keep the company exposed to risks in the segment.

Liquidity: Strong

Liquidity remains strong driven by healthy cash accrual is of about Rs.80-100 crores per fiscal over the medium term. Average utilisation of working capital bank limit of Rs 655 crores was about 58% during the 12 months through October 2022. The company has annual long term repayment obligation of ~Rs 11-15 crores over the medium term. Capital expenditure of around Rs 120 crore per fiscal will be invested towards board project and modernization of facilities. Cash accrual, cash surpluses and unutilized bank lines should be sufficient to meet funding requirements. With an adjusted gearing of 0.20 time as on March 31, 2022, there is sufficient headroom to raise additional debt. Liquidity is also supported by the significant value of investments in listed Ramco group companies.

Rating Sensitivity factors

Downward factors

- An extended material slowdown in demand for AC roofing resulting in considerable decline in RIL's revenues
- Sustained decline in operating margins to below 7-8% over the medium term, due to continued increase in input prices or due to pricing pressure following challenging market conditions
- Moderation in debt metrics due to large debt funded capex/acquisitions, increase in guarantees; for instance TOL/TNW of higher than 1.2-1.3 times on a sustained basis
- Material decline in value of quoted investments, impacting financial flexibility

About the Company

Incorporated in 1965, RIL was founded by Mr P R Ramasubrahmaneya Rajha, son of Mr P A C Ramasamy Raja, founder of the South India-based Ramco group. RIL manufactures AC roofing in both India and Sri Lanka and CSBs in the building products division, and also sells cotton yarn of 4-300s counts. It has 10 manufacturing facilities across India for the building products division, one facility in Rajapalayam, Tamil Nadu, for manufacture of cotton yarn; and four windmills at Tamil Nadu, Karnataka, and Gujarat.

The Ramco group includes RCL (formerly Madras Cements Ltd), Ramco Systems Ltd, and RIL. The textile companies in the group include Rajapalayam Mills Ltd ('CRISIL A/Positive/CRISIL A1'), Rajapalayam Textile Ltd ('CRISIL BBB/Stable'), Ramaraju Surgical Cotton Mills Ltd ('CRISIL A-/Positive/CRISIL A2+'), Sri Vishnu Shankar Mills Ltd ('CRISIL BBB+/Stable/CRISIL A2'), Sandhya Spinning Mills Ltd ('CRISIL BBB/Stable/CRISIL A3'), and Sri Harini Textiles Ltd.

For the half year ended September 30,2022, RIL (on a standalone basis) had a profit after tax (PAT) of Rs 83 crore (Rs 106 crore in the corresponding period of fiscal 2022), on net revenue of Rs 714 crore (Rs 611 crore).

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Revenue	Rs crore	1464	1213
Profit after tax (PAT)	Rs crore	126	116
PAT margin	%	8.6	9.5
Adjusted debt/adjusted net worth	Times	0.21	0.20
Interest coverage	Times	26.99	22.70

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Complexity Level	Rating Assigned with Outlook
NA	Commercial Paper	NA	NA	7-365 days	100	Simple	CRISIL A1+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
M/s. Sudharsanam Investments Limited	Full	Subsidiary
Sri Ramco Lanka (Private) Limited	Full	Subsidiary
Sri Ramco Roofings Lanka (Private) Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	100.0	CRISIL A1+		--	31-01-22	CRISIL A1+	29-01-21	CRISIL A1+	31-01-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

CRISILs Approach to Financial Ratios

Rating criteria for manufaturing and service sector companies

CRISILs Bank Loan Ratings - process, scale and default recognition

Rating Criteria for Construction Industry

CRISILs Criteria for Consolidation

Criteria for Notching up Stand Alone Ratings of Companies based on Group Support

Understanding CRISILs Ratings and Rating Scales

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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