



Ref. No.Cr.RatingInt./Reg30
2.3.2020

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 Short Term and Long Term Ratings, as detailed below :-

| Instrument | Rating Action |
|------------------|-------------------------|
| Commercial Paper | CRISIL A1+ (reaffirmed) |

We request you to please take note of the above. The e-mail/Letter received from CRISIL in this regard is enclosed.

Thanking you

Yours faithfully
For RAMCO INDUSTRIES LIMITED

S. Balamurugasundaram

S. Balamurugasundaram
Company Secretary & Legal Head

Encl. : a.a.

RE: RR and CRR for Ramco Industries Limited

02/28/20

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→ FORWARD

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Crisil Rating Desk <crisilratingdesk@crisil.com>

Mark as unread

Sat 2/29/2020 12:37 PM

To: Sairam S - General Manager Finance;

Cc: Preetham Rajashekara Sharma <preetham.sharma@crisil.com>;
Rajeswari Karthigeyan <rajeswari.karthigeyan@crisil.com>;

📎 1 attachment

◀ ▶

Ramco
[Redacted]

Dear Sir/Madam,

As requested, attached is the credit rating report for Ramco Industries Limited.

Should you need any further assistance, please write to us at CRISILratingdesk@crisil.com or call on +1800-267-1301.

Please Note: CRISIL has revised its rating symbols and definitions with effect from July 11, 2011, to comply with the SEBI circular, 'Standardization of Rating Symbols and Definitions'. The revised rating symbols carry the prefix, 'CRISIL'. The rating symbols for short-term instruments have been revised to 'CRISIL A1', 'CRISIL A2', 'CRISIL A3', 'CRISIL A4', and 'CRISIL D' from the earlier 'P1', 'P2', 'P3', 'P4', and 'P5', respectively. The revision in the rating symbols and definitions is not to be construed as a change in the ratings. For details on revised rating symbols and definitions, please refer to the document, 'Revision of Rating Symbols and Definitions', at the link, <http://www.crisil.com/ratings/credit-rating-scale.html>

With Best Regards
Ratings Operations –Release desk**CRISIL - An S&P Global Company**

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From: Crisil Rating Desk

Sent: 28 February 2020 20:28

Rating Rationale

January 31, 2020 | Mumbai

Ramco Industries Limited

Rating Reaffirmed

Rating Action

Rs.100 Crore Commercial Paper

CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

The rating continues to reflect an established position in the domestic asbestos cement (AC) roofing market and improving presence in the Sri Lankan market, and healthy revenue diversity through a presence in textiles, calcium silicate boards, and wind power segments. The rating also reflects an adequate 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 financial flexibility. These strengths are partially offset by dependence of the AC roofing business on rural spending, and exposure to intense competition from peers as well as from substitute 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.

During the first six months of fiscal 2020, the standalone operating income declined by 4% compared with the corresponding period of the previous fiscal due to lower spending on rural construction. Also, one of the three global suppliers of asbestos shut operations after a mining ban, leading to a rise in the price of asbestos. Consequently, the operating profitability margin fell to 11.5% from 12.6%.

The demand for AC roofing is likely to improve with the expected increase in rural income in fiscal 2021, driven by better monsoon and crop output in fiscal 2020 and an expected compound annual growth of around 11% in warehouse construction over the next five years. These factors, along with steady demand in Sri Lanka, should help achieve moderate volume growth in the medium term. The operating margin should also remain steady given the brand equity in the market and increasing share of value-added products.

Analytical Approach

For arriving at the rating, CRISIL 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 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:** The company 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 brand and also shield operations from regional demand-supply mismatches. During fiscal 2019, 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.

*** Healthy revenue diversity:** While the domestic AC roofing business continues to be the mainstay, contributing around 74% to overall revenue during fiscal 2019, the company also manufactures cotton yarn (15%) and calcium silicate boards (CSBs; 11%). 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 industry. CRISIL believes that improving revenue diversity should mitigate significant fluctuation in the company's performance over the medium term.

*** Adequate and improving financial risk profile:** The networth is healthy, debt and corporate guarantees extended to group companies are declining, and debt protection metrics are improving. The adjusted gearing (including guarantees provided to group companies) was 0.28 time as on March 31, 2019, against 0.39 time a year earlier. The net cash accrual to total debt and interest coverage ratios also improved to about 0.43 time and 10.04 times, respectively, in fiscal 2019 from 0.35 time and 7.45 times, respectively, in fiscal 2018. The return on capital employed, however, declined to 11.1% in fiscal 2019 from 12.2% in fiscal 2018 due to less flexibility to pass on higher costs of raw materials to customers. Cash generation should increase steadily supported by sustenance of the operating profitability margin at 11-13% over the medium term, supported by increasing diversification into higher margin non-asbestos products and Sri Lankan operations. Also, CRISIL does not expect an increase in guarantees provided to group entities, as the performance of these 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 4,431 crore (market value) as on January 24, 2020. 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 74% 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 2018, respectively. In India, only white asbestos (known as crysotile) fibre is used, as blue and brown asbestos have been banned. Furthermore, all forms of asbestos mining are banned in the country. Regulatory changes concerning asbestos mining and usage will remain a key monitorable.

*** 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 18 players in the industry. Furthermore, AC roofing manufacturers face stiff competition from manufacturers of galvanised 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. Prices of raw materials for AC roofing (asbestos fibre and cement) have already increased in fiscal 2019, thus making the operating margin 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 Adequate

Cash accrual is expected at Rs 100-120 crore per fiscal over the medium term, while cash and cash equivalents were Rs 63 crore as on September 30, 2019. Average utilisation of the bank limit of Rs 550 crore was about 43% during the 12 months through November 2019. The company has long term repayment obligation of around Rs 30 crore each in fiscals 2020 and 2021, with maintenance capital expenditure of around Rs 30 crore per fiscal. Cash accrual, cash and cash equivalents, and unutilised bank lines should be sufficient to meet funding requirements. With an adjusted gearing of 0.28 time as on March 31, 2019, there is sufficient headroom to raise additional debt. Liquidity is also supported by the significant value of investments in listed Ramco group companies and the goodwill the group has in the lending community.

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 in the medium term to below 8% due to continued increase in input prices or due to pricing pressure following challenging market conditions

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 Rajapalyam, 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/Stable/CRISIL A1'), Rajapalayam Textile Ltd ('CRISIL BBB/Stable'), Ramaraju Surgical Cotton Mills Ltd ('CRISIL BBB+/Stable/CRISIL A2'), Sri Vishnu Shankar Mills Ltd ('CRISIL BBB/Stable/CRISIL A3+'), Sandhya Spinning Mills Ltd ('CRISIL BBB-/Stable/CRISIL A3'), and Sri Harini Textiles Ltd.

For the six months ended September 30, 2019, RIL (on a standalone basis) had a profit after tax (PAT) of Rs 47 crore (Rs 48 crore in the corresponding period of fiscal 2018), on net revenue of Rs 473 crore (Rs 491 crore).

Key Financial Indicators

| As on / for the period ended March 31 | | 2019 | 2018 |
|--|-----------------|--------------|-------------|
| Revenue | Rs crore | 1039 | 951 |
| Profit after tax (PAT) | Rs crore | 74 | 79 |
| PAT margin | % | 7.2 | 8.3 |
| Adjusted debt/adjusted net worth | Times | 0.39 | 0.39 |
| Interest coverage | Times | 10.04 | 7.45 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

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

Annexure - List of entities consolidated

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

Annexure - Rating History for last 3 Years

| Instrument | Type | Current | | 2020 (History) | | 2019 | | 2018 | | 2017 | | Start of 2017 |
|------------------|------|--------------------|------------|----------------|--------|----------|------------|----------|------------|----------|------------|---------------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | |
| Commercial Paper | ST | 100.00 | CRISIL A1+ | | | 18-01-19 | CRISIL A1+ | 11-04-18 | CRISIL A1+ | 04-05-17 | CRISIL A1+ | - |

All amounts are in Rs.Cr.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Construction Industry](#)

[CRISILs Criteria for Consolidation](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Group Support](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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