Ramco Industries Limited

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Ref. No.Cr.RatingInt./CRISIL/Reg30
31.1.2022

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 received from CRISIL in this regard is enclosed. (Rating Rationale).

Thanking you

Yours faithfully
For RAMCO INDUSTRIES LIMITED

S. Bala

S. Balamurugasundaram
Company Secretary & Legal Head

Encl. : a.a.

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

January 31, 2022 | 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 Ratings has reaffirmed its rating on the commercial paper programme of Ramco Industries Limited (RIL) at 'CRISIL A1+'.

For the nine months ended December 31, 2021, RIL (on a standalone basis) registered a profit after tax (PAT) of Rs 92 crore (Rs 86 crore in the corresponding period of fiscal 2021), on net revenue of Rs 879 crore (Rs 726 crore). Revenue growth was supported by healthy demand from rural markets, and substitution demand, with the price of steel products (substitute) also registering a sharp increase. Besides, the company's textile segment also performed well. Operating profitability declined marginally to 15.8% during the 9 month period ended December 31, 2021 from 17% in the corresponding period of the previous fiscal, due to higher raw material and logistics cost.

The demand for asbestos roofing products is likely to remain steady with anticipated increase in rural income over the near to medium term, supported by good crop output. Demand for calcium silicate board and textile products have also recovered in fiscal 2022 driven by recovery in end markets. These factors, along with steady demand for asbestos roofing products in Sri Lanka, should help achieve moderate volume growth of 5-7% over the medium term. The operating margin should also remain steady at ~12-14% levels given the brand equity in the market and increasing share of value-added products.

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 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.

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 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 2021, 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 66% to overall revenue during fiscal 2021, 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 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, declining debt and improving debt protection metrics over the last two years. The adjusted gearing (including guarantees provided to group companies) remains healthy at 0.20 times as on March 31, 2021 (against 0.32 times at March 31, 2020), while adjusted debt to earnings before interest tax, depreciation and amortization (EBITDA) stood at 1.00 times in fiscal 2021 (2.61 times in fiscal 2020). The net cash accrual to total debt and interest coverage ratios also remains healthy at about 0.70 time and 22.70 times, respectively, in fiscal 2021 as compared to 0.32 time and 9.88 times, respectively, in fiscal 2020. Cash generation should increase steadily supported by sustenance of the operating profitability margin at 12-14% over the medium term, supported by increasing diversification into higher margin non-asbestos products and stable Sri Lankan operations. Also, CRISIL 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 4,961 crore (market value) as on January 20, 2022. 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. 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 19 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.

  During fiscal 2022, 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 expected above Rs.150 crore per fiscal over the medium term. Average utilisation of working capital bank limit of Rs 550 crore was about 36% during the 12 months through December 2021. The company has annual long term repayment obligation of ~Rs 11-13 crores over the medium term. Capital expenditure of around Rs 50 crore per fiscal will be invested towards maintenance 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, 2021, 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 in the medium term to below 8-9% 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 adjusted debt: EBITDA in excess of 2 times on 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/Negative/CRISIL A1'), Rajapalayam Textile Ltd ('CRISIL BBB/Stable'), The Ramaraju Surgical Cotton Mills Ltd ('CRISIL A-/Stable/CRISIL A2+'), Sri Vishnu Shankar Mills Ltd ('CRISIL BBB/Positive/CRISIL A3+'), Sandhya Spinning Mill Ltd ('CRISIL BB+/Positive/CRISIL A4+'), and Sri Harini Textiles Ltd.

For the nine months ended December 31, 2021, RIL (on a standalone basis) had a profit after tax (PAT) of Rs 92 crore (Rs 86 crore in the corresponding period of fiscal 2021), on net revenue of Rs 879 crore (Rs 726 crore).

Key Financial Indicators

As on / for the period ended March 31		2021	2020
Revenue	Rs crore	1213	978
Profit after tax (PAT)	Rs crore	116	69
PAT margin	%	9.5	7.0
Adjusted debt/adjusted net worth	Times	0.20	0.32
Interest coverage	Times	22.70	9.88

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)	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
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

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	100.0	CRISIL A1+		--	29-01-21	CRISIL A1+	31-01-20	CRISIL A1+	18-01-19	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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Note for Media:

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