The India Cements Limited

November 08, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,071.86 (Reduced from 3,194.37)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Negative (Single A; Outlook: Negative)
Short-term bank facilities	872.51 (Enhanced from 750.00)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Total bank facilities	**3,944.37 (₹ Three thousand nine hundred forty-four crore and thirty-seven lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of The India Cements Limited (ICL) is on account of weakening in the credit profile of ICL in FY22 (refers to the period April 01 to March 31) and Q1FY23 (refers to the period April 01 to June 30), which is expected to deteriorate further in Q2FY23 (refers to the period July 01 to September 30) owing to unabated cost pressures resulting in weakening of its leverage and coverage indicators. ICL had to rely on additional debt and stretching of its creditors to meet its debt obligations in FY22 and even in H1FY23. Owing to subdued profitability due to continued cost pressures and inability of ICL to lower the debt as against envisaged, net debt to PBILDT for ICL deteriorated from 4.10x as on March 31, 2021, to more than 7x as on March 31, 2022, and is expected to deteriorate to remain high as on March 31, 2023. This has triggered CARE Ratings Limited's (CARE Ratings') negative sensitivity of total debt to PBILDT for ICL remaining over 4x on a sustained basis.
The ratings continue to remain constrained on account of the susceptibility of the revenues and profitability to the demand-supply dynamics of the cement market, relatively high operating cost as compared to the other industry players, exposure to group entities and cyclical nature of the cement industry. The ability of the company to improve its operating performance and bring down its debt levels going forward shall remain key rating monitorable.

Furthermore, CARE Ratings notes that in October 2022, ICL has divested its stake in Springway Mining Pvt Ltd (SMPL; a wholly-owned subsidiary of ICL as on June 2022) to JSW Cement for a purchase consideration of ₹476.87 crore. Of the total consideration of ₹476.87 crore, it has received ₹373.87 crore and the balance amount of ₹103 crore is expected to be received on or before December 31, 2022. As discussed with the company's management, the proceeds so received have been utilised to reduce the creditors to certain extent, and the balance is kept for meeting any cash flow mismatches or debt repayments as and when required by the company.

The ratings, however, derive strength from ICL's strong market position in the southern markets with long-established presence along with the strong financial flexibility of the promoter, its strong brand image in all the five southern states, integrated nature of operations with presence of captive power plants and revenue contribution from non-southern states resulting in geographical diversification.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profitability and/or reduction in the total debt resulting in total debt/PBILDT of 4.0x or lower.
- Improvement in the operating performance on a sustained basis leading to significant improvement in PBILDT per tonne.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the total debt to PBILDT above 7x on a sustained basis beyond FY23 as well.
- Any large debt-funded capex resulting in moderation in the capital structure or higher-than-estimated cash support towards associate or group companies.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating weaknesses

Weak operating performance: ICL registered 6% growth in its total operating income (TOI) in FY22 y-o-y and stood at ₹4,858 crore, which was primarily on account of increase in the selling price by 8% and also a volume growth by 2% in FY22. The improvement in selling price by 8% on y-o-y basis was however insufficient to counter the increase in the cost which increased by 15% y-o-y, with power and fuel cost/t increasing 42% y-o-y. This resulted in decline in the profitability and accruals during FY22. ICL's PBILDT/t declined by 34% to ₹508/t in FY22 as against ₹764/t in FY21 and this further declined to ₹115/t in Q1FY23. The PBILDT margin during FY22 declined to 9.99% from 17.82% during FY21 and further to 3.29% in Q1FY23. The operating performance has moderated in FY22 and Q1FY23. The operating performance is expected to deteriorate further in Q2FY23 given that it was a seasonally weak quarter with cost further escalating and the inability of all the players to pass on the said cost increase. The cost pressures are expected to continue in the medium term given the challenging economic conditions and also on account of the high-cost inventory which ICL has for the imported coal, it is expected that any improvement in the profitability owing to price hike by players or sequential cool off in the cost will be visible from the second half of Q3FY23. The profitability margins and also PBILDT/tonne are, however, expected to remain significantly below CARE Ratings' earlier estimates. Any improvement in the operating performance shall remain a key monitorable.

Slower-than-expected deleveraging: ICL continues to have a leveraged capital structure due to subdued performance in the past. The overall gearing of ICL adjusting for exposure to group entities/body corporate, stood at 0.81x as on March 31, 2022. The total debt outstanding (including LCs of ₹455.95 crore) as on March 31, 2022 stood at ₹3,546.52 crore as against ₹3,337.08 crore as on March 31, 2021. The repayments in FY22 were met partly by cash accruals and partly by refinancing. The net debt to PBILDT ratio, which earlier improved from the levels of 5.5x-6x as on March 31, 2019 and March 31, 2020 before improving to around 4.10x as on March 31, 2021, deteriorated in FY22 to over 7x due to weaker operating profitability and is expected to remain above CARE Ratings' negative rating sensitivity even by March 31, 2023. The total debt stood at around ₹3,040 crore as on September 30, 2022, comprising term loan of ₹2,514 crore, and fund-based utilisation of ₹440 crore.

The interest coverage indicators deteriorated from 2.97x as on March 31, 2021 levels to less than Unity in June 30, 2022. The interest and debt obligations were met by stretching creditors and resorting to additional debt. ICL has maturing debt of around ₹548.17 crore in FY23 and ₹418.94 crore in FY24 (including repayment of unsecured loan of ₹53.36 crore). The repayments to the tune of ₹250 crore have been met till H1FY23. As discussed with company management, the same have been met by stretching their creditors and resorting to additional debt. Furthermore, for H2FY23, the company is expecting to meet its debt obligations by cash accruals.

Furthermore, the proceeds received from the divestment of SMPL are proposed to be used for reduction of creditors to the extent of around ₹200-250 crore, and the balance would be kept in reserve to meet any temporary mismatch in cash flows or debt repayments as might be required by ICL. Additionally, ₹100 crore is likely to be received by ICL by December 2022, which shall provide further cushion to its liquidity. The reduction in debt and improvement in the capital structure continues to remain key monitorable.

Exposure to group entities: The exposure to the group companies in the form of investments and loans and advances on a standalone basis stood at ₹2,046 crore (including guarantees of ₹140 crore) as on March 31, 2022 (39% of net worth) as against ₹1,964 crore on March 31, 2021. On a consolidated basis, the group exposure stood at 32% of total net worth as on March 31, 2022 (PY: 30%). ICL has invested around ₹355 crore (PY: ₹325.08 crore) in equity instrument, preference share capital of subsidiary and associate companies as on March 31, 2022. The investment in debentures of subsidiary and associate companies stood at ₹306.71 crore as on March 31, 2022 (PY: ₹306.71 crore).

Cyclicality of the cement industry: The cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations and profitability.

Industry outlook: The growth in India's cement sector has seen a strong bounce back in FY22. The year closed with a growth of 20%, reaching an all-time high, after witnessing a decline of 11% in FY21. The jump was on account of the government's infrastructure push via various schemes and allocations towards the creation of hard assets and a low base effect. The growth trend continues in the production FY21 created a low base primarily because of the COVID-19 pandemic. This, coupled with pent-up demand, has led to the reversal in the muted trend in volumes. The 20% production growth in FY22 was driven by the strong recovery witnessed during H1FY22, which saw a y-o-y growth of 36%. Owing to strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to see an upswing in demand in FY23. CARE Ratings believes the industry is likely to move at high single-digit growth on account of government thrust for infrastructure and strong traction in capital expenditure. Various initiatives by the government along with several micro, small & medium enterprises (MSME) schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure will create some stress on the profitability of cement companies. Sustainable price hikes by cement producers to offset the partial cost increase in the near term remains a key monitorable.

Key rating strengths

Long track record of operation and strong financial flexibility of the promoter: ICL is one of the oldest family-owned and professionally managed business houses ably supported by a team of professional managers, technocrats and a dedicated workforce. The company is headed by N Srinivasan, Vice Chairman and Managing Director, who has more than five decades of experience in the industry. He did his B.Sc. (Tech) from Madras University and Post-Graduation in Chemical Engineering from Illinois Institute of Technology, USA. He has headed various industry bodies and chambers of commerce. At present, he is a member of the Executive Committee of Federation of Indian Chambers of Commerce and Industry (FICCI) and also a Special Invitee to the General Committee of the Madras Chamber of Commerce and Industry (MCCI).

Rupa Gurunath, being part of the third generation of the promoter group, is the grand-daughter of the company's Founder, late T.S. Narayanswami. She is the daughter of N. Srinivasan, and is a science graduate, with a PG diploma in Computer Science. She was inducted into the company's board in September 2007 and has become a Whole-time Director in March 2010.

Established position in south India and strong brand presence: ICL is one of the largest producers of cement in south India with established presence in all the five states in the region with an installed capacity of 15.55 million tons per annum (mtpa) as on March 31, 2022, including the presence of its production unit in Rajasthan.

ICL sold 9.07 million tonnes in FY22, 8.90 million tonnes cement in FY21 as against 11.0 million tonnes in FY20, operating at capacity utilisation level of 58% in FY22 (P.Y: 57%). The drop in capacity utilisation during FY22 was on account of prolonged monsoon and also the impact of second and third wave of COVID-19. ICL continues to remain as one of the major players in the southern market driven by strong brand image and presence across all the southern states. Overall southern markets accounted for 54% of the total sales volume of ICL in FY22 as against 58% in FY21 and 61% in FY20. The company sells its products under established brands, namely, 'Sankar', 'Coromandel' and 'Raasi' in the southern markets. The said sale of limestone reserves in Madya Pradesh has resulted in additional cash flows with ICL; however, it also has ended the plans of the management to diversify outside the southern India into Central India where it earlier had plans to put up a cement capacity. Currently, ICL management is of the view that cement utilisation is already low and they would not like to increase the capacities until the sector is grappling with lower utilisation and cost side issues.

Integrated nature of operations with presence of captive power plants (CPP): The company has two captive power plants (CPPs) of 50 MW each at Shankarnagar (TN) and Vishnupuram (AP). These CPPs reduces effective cost of power in addition to providing un-interrupted power supply. ICL has access to relatively low cost power sources also, such as power from gas-based power plant of 26 MW (owned by an associate company), a waste heat recovery system of 7.7 MW in one of its cement plants and AP Gas Power Corporation, where the company is entitled to 22 MW of power against its investment. In addition, the company also has an installed windmill capacity of 18.65 MW. ICL has acquired mining rights in Indonesia for low GCV coal through its subsidiary, Coromandel Minerals Pte Ltd, Singapore (CMPL). This along with coal imported from US is the major source of fuel (around 80%) for the rotary kiln.

Furthermore, in FY22, 36% of ICLs power requirement was met through CPP as against 60% in FY21 and 66% in FY20. ICL purchased more power from the grid as the cost of producing power in-house was higher than the cost of procuring the same from the grid. The power consumption increased to 91 KWH/t in FY22 as against 83 KWH/t in FY21 and 89 KWH/t in FY20. The management said that they are focusing on improving equipment efficiency, wherever necessary to lower the power consumption.

Revenue contribution from non-southern states resulting in geographical diversification: The share of sales volume in the non-southern states has been improving over the past few years. The share of the total sales volume in non-southern market improved to 46% in FY22 from 39% in FY20. While ICL benefits from expanding its reach beyond south by catering to markets in the nearby region, it is to be noted that 90% of ICL's cement capacity is located in the southern region, which results in relatively higher logistics cost. Logistics cost (Freight outwards) consumes around 20% of the total income on an average for ICL and the logistic cost/tonne increased to ₹1,177 /tonne during FY22 (PY: ₹1,018/t).

Going forward, the revival of demand in the southern markets is monitorable for the company to scale up its capacity utilisation.

Liquidity: Adequate

The adequate liquidity of ICL takes comfort from the financial flexibility of the promoters, funds received on account of recent sale of the limestone reserve and un-utilised cash credit limits.

The liquidity position of ICL deteriorated in the past few quarters and largely relied on additional debt to meet its repayments in FY22 and also in H1FY23 as cash accruals and stretch of creditors were not able to provide enough cushion to meet its debt obligation. While the promoters have strong financial flexibility, which has been demonstrated over the past, the operating performance of ICL has however deteriorated over the years leading to lower-than-expected accruals and thereby affecting its liquidity profile as well. The liquidity position is taking comfort from the financial flexibility of the promoters to be able to refinance or sell non-core assets incase required and infuse funds in ICL.

The scheduled debt obligations for FY22 stood at ₹573 crore. The repayments in FY22 have been supported partly from the cash accruals, and additionally, ICL has also refinanced some of its term loans during the course of the year. ICL has maturing debt of around ₹548.17 crore in FY23 and ₹418.94 crore in FY24 (including repayment of unsecured loan of ₹53.36 crore). The repayments to the tune of ₹250 crore have been met till H1FY23. As discussed with company management, the same have been met by stretching their creditors and resorting to additional debt.

Additionally, the company has access to fund-based working capital limit of ₹750 crore, with average utilisation of 60% during the 12 months ended June 2022 and non-fund-based limits of ₹900 crore, which are utilised to the extent of ₹750 crore as on March 31, 2022 and around ₹600-700 crore as on September 30, 2022. The cash and bank balance outstanding as on March 31, 2022 stood at ₹45.71 crore. The money received on account of the recent deal and further, balance funds to the tune of ₹100 crore out which will be received by December 2022, which will aid the liquidity to a certain extent.

The improvement in the credit profile, however, remains a key rating monitorable going forward.

Analytical approach: Consolidated

Note: CARE Ratings has changed its earlier approach from standalone to consolidated, as there exists strong management and operational linkages with subsidiaries and other group entities.

The entities considered in consolidation are mentioned in Annexure-6 below.

Applicable criteria

Policy on default recognition
Consolidation
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Cement
Manufacturing companies

About the company

ICL is the one of the largest producers of cement in south India with a total installed cement manufacturing capacity of 15.55 mtpa as on March 31, 2022. ICL was established in 1946 by Sankaralinga Iyer and T S Narayanswami, and is presently headed by N. Srinivasan, Vice Chairman and Managing Director. ICL owns and operates 10 cement manufacturing units (including two split grinding units) in the states of Telangana, Andhra Pradesh (AP), Tamil Nadu (TN), Maharashtra (MH) and Rajasthan. The company primarily manufactures two standard types of cements: Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC), the mix being 35:65.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	4511.15	4858.35	2862.33
PBILDT	803.95	485.53	-15.48
PAT	208.45	65.98	-37.27
Overall gearing (times)	0.63	0.67	NA
Interest coverage (times)	2.97	2.46	-0.54

A: Audited, UA: Unaudited; NA: Not available.

Status of non-cooperation with previous CRA: Issuer not cooperating with CRISIL as per press release dated November 02, 2022.

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	50.00	CARE A-; Stable
Fund-based - LT-Cash credit	-	700.00	CARE A-; Stable
Non-fund-based-Short term	-	10.00	CARE A2+
Non-fund-based-Short term	-	862.51	CARE A2+
Term loan-Long term	31/03/2032	2254.36	CARE A-; Stable
Term loan-Long term	31/03/2032	67.50	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term loan-Long term	LT	2254.36	CARE A-; Stable	1)CARE A; Negative (06-Jun-22)	1)CARE A; Stable (22-Feb-22) 2)CARE A; Positive (01-Jul-21) 3)CARE A-; Positive (08-Apr-21)	1)CARE A-; Stable (07-Apr-20)	1)CARE A; Stable (05-Apr-19)
2	Non-fund-based-Short term	ST	862.51	CARE A2+	1)CARE A1 (06-Jun-22)	1)CARE A1 (22-Feb-22) 2)CARE A1 (01-Jul-21) 3)CARE A2+ (08-Apr-21)	1)CARE A2+ (07-Apr-20)	1)CARE A1 (05-Apr-19)
3	Fund-based - LT-Cash credit	LT	700.00	CARE A-; Stable	1)CARE A; Negative (06-Jun-22)	1)CARE A; Stable (22-Feb-22) 2)CARE A; Positive (01-Jul-21) 3)CARE A-; Positive (08-Apr-21)	1)CARE A-; Stable (07-Apr-20)	1)CARE A; Stable (05-Apr-19)
4	Fund-based - LT-Cash credit	LT	50.00	CARE A-; Stable	1)CARE A; Negative (06-Jun-22)	1)CARE A; Stable (22-Feb-22) 2)CARE A; Positive (01-Jul-21) 3)CARE A-; Positive	1)CARE A-; Stable (07-Apr-20)	1)CARE A; Stable (05-Apr-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
						(08-Apr-21)		
5	Non-fund-based-Short term	ST	10.00	CARE A2+	1)CARE A1 (06-Jun-22)	1)CARE A1 (22-Feb-22) 2)CARE A1 (01-Jul-21) 3)CARE A2+ (08-Apr-21)	1)CARE A2+ (07-Apr-20)	1)CARE A1 (05-Apr-19)
6	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (31-Mar-20) 2)CARE A1 (05-Apr-19)
7	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (08-Apr-21)	1)CARE A-; Stable (07-Apr-20)	1)CARE A; Stable (05-Apr-19)
8	Term loan-Long term	LT	67.50	CARE A-; Stable	1)CARE A; Negative (06-Jun-22)	1)CARE A; Stable (22-Feb-22) 2)CARE A; Positive (01-Jul-21) 3)CARE A-; Positive (08-Apr-21)	1)CARE A-; Stable (07-Apr-20)	1)CARE A; Stable (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based-Short term	Simple
3	Term loan-Long term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure-6: Entities considered in consolidation

Name of the Subsidiary Company	As on March 31, 2021	As on March 31, 2022
	% of Ownership	% of Ownership
ICL Securities Ltd. India	100.00	100.00
ICL Financial Services. India	100.00	100.00
ICL International Ltd. India	100.00	100.00
Industrial Chemicals and Monomers Ltd. India	98.59	98.59
PT Coromandel Minerals Resources, Indonesia	100.00	100.00
PT Adcoal Energindo, Indonesia	100.00	100.00
Coromandel Minerals Pte. Ltd. , Singapore	100.00	100.00
Raasi Minerals Pte. Ltd., Singapore	100.00	100.00
Coromandel Electric Company Ltd., India	50.14	50.14
India Cements Infrastructures Ltd., Indai	100.00	100.00
Coromandel Travela Ltd. , India	98.50	98.50
NKJA Mining Pvt. Ltd., India	100.00	100.00
Springway mining Pvt. Ltd. , India	68.88	81.15
Name of the Associate Company	**% of Ownership**	**% of Ownership**
Raasi Cement Ltd., India	43.45	43.45
Coromandel Sugarl ltd., India	25.07	25.07
India Cements Capital Ltd., Indai	47.91	47.91
Unique Receivable Management Pvt. Ltd., Indai	49.20	49.20
PT. Mitra Setia Tanah Bumbu, Indonesia	49.00	49.00

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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