The India Cements Limited

March 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,079.49	CARE BBB; Negative	Revised from CARE A-; Stable
Short-term bank facilities	900.00	CARE A3	Revised from CARE A2+

Details of instruments/facilities in Annexure-1.

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 significant weakening in the credit profile of ICL in 9MFY23 (refers to the period April 01 to December 31), resulting from higher-than-envisaged operational losses due to unabated cost pressures along with highly leveraged capital structure and inability of the management to reduce the overall debt levels in the current fiscal year.

CARE Ratings Limited (CARE Ratings) believes that the net debt to EBITDA will remain stretched and over 7x beyond FY23-end on account of ICL's weak operational performance. ICL has largely relied on the funds received on account of sale of Springway Mining and debt refinancing to meet its debt obligations and also to fund its operational losses in the current fiscal.

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.

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: Factors likely to lead to rating actions

Positive factors

- 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

- Inability of the company to improve its operating performance and generate sufficient accruals and lower the overall debt levels.
- Any large debt-funded capex resulting in moderation in the capital structure or higher-than-estimated cash support towards associate or group companies.

Analytical approach: Consolidated.

CARE Ratings has taken a consolidated approach in analysing the credit profile of ICL's strong management and operational linkages with subsidiaries and other group entities. The entities considered in consolidation are mentioned in Annexure-6 below.

Outlook: Negative

The outlook to the long-term ratings of ICL is revised to 'Negative' on account of CARE Ratings' belief that the overall credit profile of ICL may deteriorate further on account of high debt levels and inability of the management to deleverage the company in the due course. The negative outlook also takes into account its continuous weakening operational profile, which is leading to lower accruals and leading to moderate debt coverage indicators. The outlook may be revised to 'Stable' in case ICL is able to reduce its debt and improve its overall operational performance along with its capital structure and coverage ratios.

Key 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,

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

who has more than five decades of experience in the industry. He completed 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, 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 became 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 7.10 million tonnes in 9MFY23 as against 9.07 million tonnes in FY22 (8.90 million tonnes cement in FY21), 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. The 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, the management of ICL 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 reduce 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 the US, is the major source of fuel (around 80%) for the rotary kiln.

Furthermore, in FY22, 36% of ICL's 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 the 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.

Key weaknesses

Weakening financial and operational profile

ICL has reported PBILDT loss of ₹63.84 crore in 9MFY23. The total volumes sold increased to 7.1 MTPA in 9MFY23 as compared with 6.42 MTPA in 9MFY22, the total expenses per tonne increased significantly from average of ₹4,555/t in 9MFY22 to ₹5,700/t in 9MFY23. The power and fuel cost per tonne increased to ₹2,600/t in Q3FY23 as compared with ₹1,670/t in Q3FY22, which has largely strained ICLs profitability. The gross cement realisation remained flat at ₹5,514 in Q3FY23 (Q1FY23- ₹5,379; Q2FY23- ₹5,467). As per the management, despite the sharp increase in prices of input materials, cement prices could not be raised due to huge supply overhang. Furthermore, better-yielding blended cement proportion shrank in the overall mix due to more demand for OPC products in South India. ICL reported PBILDT/tonne loss for two consecutive quarters Q2FY23 and Q3FY23 at loss of ₹416/tonne and loss of ₹324/tonne, respectively. The shipping, windmill and RMC segment contributed to the revenue of ₹32.73

crore, ₹14.92 crore and ₹83.52 crore, respectively, in 9MFY23, while the PBILDT from these segments stood at ₹16.1 crore, ₹11.01 crore and ₹6.08 crore, respectively.

The cost per tonne of cement continues to be very high compared to other players, which continues to impact ICL's performance due to its vintage plants. The refurbishment of the plants is required to reduce the costs and improve the efficiency which remains a key monitorable. The profitability margins and also PBILDT/tonne are, however, expected to remain significantly below CARE Ratings' earlier estimates, and the company is expected to end at PBILDT loss, which will weaken the credit profile of ICL.

Highly leveraged capital structure
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 total debt levels are expected to be around ₹3,400 crore at the end of FY23 as well. ICL has largely relied on the funds received on account of the sale of Springway Mining and debt refinancing to meet its interest and det obligations and to fund its losses in FY23. Thus, the overall debt position has not improved. ICL has maturing debt of around ₹100 crore in March 2023 and ₹410 crore in FY24 and ₹380 crore in FY25.
Furthermore, ICL in Q3FY23 has announced capex of ₹1,600-₹1,800 crore required for refurbishment of its plants which will largely be funded out of sale of non-core assets and internal accruals. On account of lower internal accruals, CARE Ratings believes that the company will have to either rely on partial debt for funding the capex or sale of non-core assets, which so far has not materialised. This may lead to delay in the maintenance capex to be carried by the management, which will further delay the recovery in plant's operational efficiency and hence remains a key monitorable. Improvement in the operational efficiency of the plants and reduction in the debt levels 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 the 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 macros of the cement industry remain stable in the long term, driven by demand from the housing sector, upcoming infrastructure projects as well as generous rural demand. The capex spree by the government on infrastructure and housing spending in the wake of the 2024 general election paints an encouraging picture of cement demand. The private capex is also expected to pick up gradually lending further support on the demand front. The cement players have also responded enthusiastically by announcing huge capacity addition over FY23-FY25.
In the current fiscal as well, the players are walking on a tightrope, and they have not been able to offset the higher input costs through hikes in cement prices given the unprecedented levels of input prices with cement prices already being at their peak. Though price hikes and absorption of the same are imminent for the sector's profitability, so far the players have not been able to take meaningful hikes. Hence, the operating leverage driven by strong volume uptake and continuous focus of the players to improve cost efficiency are expected to aid margin in the medium terms for the sector.

Liquidity: Stretched
The liquidity position of ICL remains stretched on account of operational losses. The liquidity position of ICL has deteriorated in the past few quarters, and the company has largely relied on debt refinancing and funds received from the sale of SpringWay Mining for funding its losses and servicing its interest and debt obligations. 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 scheduled debt obligations for March 2023 is ₹100 crore, while for FY24 and FY25, it stood at ₹410 crore and ₹380 crore, respectively. Additionally, the company has access to fund-based working capital limit of ₹750 crore and non-fund-based limits of ₹900 crore, which are utilised to the extent of around ₹400-500 crore and ₹600 crore, respectively, as on December 31, 2022. The financial flexibility of the promoters to be able to refinance or sell non-core assets (as guided by the management) and infuse funds in ICL will remain the key monitorable.

Environment, social, and governance risks

The cement sector has a significant impact on the environment owing to higher emissions, waste generation and water consumption. This is because of the energy intensive cement manufacturing process and its high dependence on natural resources, such as limestone and coal as key raw materials. The sector has social impact due to its nature of operations affecting local community and health hazards involved. However, ICL has made efforts on mitigating its environmental and social risks.

Environmental: ICL complies with all the Rules and Regulations, which are continuously monitored at all the critical points by the Pollution Control Boards. It is focussed on reducing the greenhouse gas emissions and ensure water conservation and community development to achieve sustainable environment. ICL has replaced all the ESPs with bag filters as per energy management programme. As part of environment sustainability for the surrounding villages, the company has been diverting the water collected from its mines through huge investments on pipelines for recharging the nearby village ponds and have also created ponds at the exhausted mines for the use of villages for agricultural development. ICL is installing one more waste heat recovery system to reduce the overall carbon content in its electricity generation.

Social: The company has undertaken various activities for the development of the society and villages around its plants. Promoting gender equality and empowering women Self Help Groups (SHG), setting up homes and hostels for Women and Orphans, setting up old age homes, day care centres, and such other facilities for senior citizens and implementing measures for reducing inequalities faced by socially and economically backward groups. Furthermore, ICL has prepared a Safety, Health and Environment policy (SHE), which mentions the objectives, ownership and accountability for the health and safety of its constituents.

Governance: The Company's Philosophy on Corporate Governance aims at the attainment of transparency and responsibility in its operations and interactions with all its Stakeholders. The Board has 14 members consisting of seven independent directors and five non-executive directors. During FY22, five board meetings were held.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

ICL is one of the largest producers of cement in south India with a total installed cement manufacturing capacity of 15.55 mtpa as on December 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)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	4,511.15	4,858.35	4,122.41
PBILDT	803.95	485.53	-63.84
PAT	208.45	65.98	100.00
Overall gearing (times)	0.63	0.67	NA
Interest coverage (times)	2.97	2.46	-ve

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

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	700.00	CARE BBB; Negative
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BBB; Negative
Non-fund-based-Short Term		-	-	-	10.00	CARE A3
Non-fund-based-Short Term		-	-	-	890.00	CARE A3
Term Loan-Long Term		-	-	31/03/2032	2261.99	CARE BBB; Negative
Term Loan-Long Term		-	-	31/03/2032	67.50	CARE BBB; Negative

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	2261.99	CARE BBB; Negative	1)CARE A-; Stable (25-Nov-22) 2)CARE A-; Stable (08-Nov-22) 3)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	890.00	CARE A3	1)CARE A2+ (25-Nov-22) 2)CARE A2+ (08-Nov-22) 3)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 BBB; Negative	1)CARE A-; Stable (25-Nov-22) 2)CARE A-; Stable (08-Nov-22) 3)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 BBB; Negative	1)CARE A-; Stable	1)CARE A; Stable (22-Feb-22)	1)CARE A-; Stable	1)CARE A; Stable (05-Apr-19)

					(25-Nov-22) 2)CARE A-; Stable (08-Nov-22) 3)CARE A; Negative (06-Jun-22)	2)CARE A; Positive (01-Jul-21) 3)CARE A-; Positive (08-Apr-21)	(07-Apr-20)	
5	Non-fund-based-Short Term	ST	10.00	CARE A3	1)CARE A2+ (25-Nov-22) 2)CARE A2+ (08-Nov-22) 3)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 BBB; Negative	1)CARE A-; Stable (25-Nov-22) 2)CARE A-; Stable (08-Nov-22) 3)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 the various instruments rated

Sr. No.	Name of the 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: Lender details

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 (subsidiary till 10.10.2022)	100.00	100.00
Springway mining Pvt. Ltd. , India (subsidiary till 10.10.2022)	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.	47.91	47.91
Unique Receivable Management Pvt. Ltd.	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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