The India Cements Limited

February 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,788.00	CARE BB+; Negative	Revised from CARE BBB-; Negative
Short Term Bank Facilities	893.00	CARE A4+	Revised from CARE A3

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 continued weak operational performance and subdued cash accruals of the company in 9MFY24 (refers to the period April 01 to December 31). The subdued operating performance of ICL stems from the significantly higher power and fuel requirement compared to the industry average and also continued loss in market share in the southern region over the years. ICL's capital structure also remains leveraged and the repayment of debt in the light of subdued operational cash flows from business, has largely been done from recoupment of loans and advances from certain group companies and stretching of creditors. Further as CARE Ratings envisaged lower accruals in the near to medium term, the debt repayments remain largely dependent on the successful divestment from the non-core asset and realization of loans advanced to the group companies and related parties which will be a key monitorable. While the company has identified measures to improve the operational efficiency, the expected measures shall be fully implemented only over near to medium term going forward and is also contingent upon availability of funds so as to be able to implement them and derive the said benefits.

During 9MFY24, the company has been able to garner approx. ₹446 crore from its group companies and related parties towards the loans advanced by it in addition to realization of non-core assets, which were largely utilized to meet the debt repayments and payment to creditors. Further, the management proposes to take up incremental debt of Rs. 750 crores in the company out of which Rs. 250 will be towards working capital while remaining Rs. 500 crores will be towards efficiency and improvement capex which may further weaken the already leveraged capital structure. The ratings also take note of the search operations conducted by Enforcement Directorate (ED) at the premises of group entity 'India Cements Capital Limited' and any negative outcome of the same which may adversely impact financial risk profile of ICL shall remain imperative from credit perspective and will be closely monitored by CARE Ratings.

Despite the steps undertaken by the company, CARE Ratings Limited (CARE Ratings) believes that owing to the weak operating performance of the company, the net debt to EBITDA will remain stretched and over 6x in FY24 and FY25 unless management resorts to deleveraging by equity infusion or significant sale proceeds from non-core assets as guided earlier. 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, cyclical nature of the cement industry and inability of the company to increase its market share in the southern market. The ratings, however, derive strength from ICL's long standing position in the southern markets along with the financial flexibility of the promoter, integrated nature of operations with presence of captive power plants.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profitability and/or reduction in total debt resulting in improved leverage and capital structure of ICL.
- Improvement in operating performance on a sustained basis leading to PBILDT margins of more than 10-12% or interest coverage of higher than 2x.

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

Outlook: Negative

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

The outlook to the long-term ratings of ICL continues to be 'Negative' on account of CARE Ratings' belief that the operating performance is expected to remain subdued in medium term and the operations of the company may not generate sufficient cash to service the entire scheduled debt and interest repayments out of its own cash accruals. The weak operational performance coupled with significant reliance on the non-operating cashflows may deteriorate the credit profile further on account of any delay in the divestment process. 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.

Detailed description of the key rating drivers:

Key weaknesses

Weak financial and operational profile

For FY23, ICL has reported PBILDT loss of ₹105 crore. The total volumes sold increased to 9.76 MTPA as compared with 9.07MTPA, the total expenses per tonne increased significantly from average of ₹4,688/t in FY22 to ₹5,615/t in FY23. The power and fuel cost per tonne increased to ₹2,454/t in FY23 as compared with ₹1,683/t in FY22, which has largely strained ICLs profitability. The gross cement realisation improved marginally from ₹5,207 in FY22 to ₹5,308/t. As per the management, despite the sharp increase in prices of input materials, cement prices could not be raised due to huge supply overhang. ICL reported PBILDT loss of ₹170/t for FY23 compared to profit of ₹508/t in FY22. The shipping, windmill and RMC segment contributed revenue of ₹58 crore, ₹28 crore and ₹84 crore, respectively, in FY23, while the PBILDT from these segments stood at ₹18 crore, ₹17 crore and ₹5 crore, respectively.
In 9MFY24, total operating income achieved by the company is ₹ 3,890.12 crores with a decline of 6.37% on YOY basis and further reported PBILDT margin of 2.72% improved from negative 1.54% during 9MFY23. The slight improvement is coming from better sales realization for cement during Q3FY24 with slight reduction in variable cost on account of lower fuel price and improved blending ratio.
However, 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 efficiency, which remains a key monitorable. However, the gradual reduction in fuel prices will provide a respite to the company.

Highly leveraged capital structure

ICL continues to have a leveraged capital structure due to subdued performance. The overall gearing of ICL adjusting for exposure to group entities/body corporate, stood at 0.92x as on March 31, 2023 (PY:0.95x). The total debt outstanding (including LCs of ₹481 crore) as on March 31, 2023, stood at ₹3,426 crore as against ₹3,547 crore as on March 31, 2022. The total debt levels are expected to be around ₹3,300 crore at the end of FY24. ICL has largely relied on the divestment proceeds and refinancing to fund the repayment of loans and incur maintenance capex.
ICL has maturing debt of around ₹404 crore in FY24 out of which approx. ₹ 282 crore has been paid during 9MFY24 while remaining ₹ 122 crore is payable during Q4FY24. The company has been able to meet its debt obligations in 9MFY24 largely from recovery of the loans advanced to group companies approx. ₹446 crore in 9MFY24) along with realization of non-core assets. For the full year FY24 as well, the company is expected to meet its debt obligations and planned capex from the proceeds generated from partial sale of non-core assets and realization of loans advanced to group companies as the expected PBILDT for FY24 will not be sufficient to meet these obligations.
CARE Ratings believes that significant reliance by the company on proceeds from sale of non-core asset poses risk, as any delay in monetizing the non-core assets will lead to delay in the efficiency improvement 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

On a consolidated basis, the exposure to the group companies in the form of investments and loans and advances on a standalone basis stood at ₹1,651 crore (including guarantees of ₹140 crore) as on March 31, 2023 (equivalent to ~31% of net worth) as against ₹1,727 crore (including guarantees of ₹140 crore) on March 31, 2022.
Further, ICL has advanced loans to Sri Saradha Logistcis Private Limited (SSLPL) and the company also has trade deposits made with SSLPL as well. The company has classified SSLPL as related party based on the advice letter from the Securities and Exchange Board of India (SEBI). SSLPL presently holds 5.04% in ICL as on December 31, 2023 reduced from 5.21% as on September 30, 2023 (As on March 31, 2023: 6.65% representing 2,06,21,843 shares of ICL). The shares held by SSLPL have been classified under public shareholding. Management is giving comfort from the recoupment of loans advanced by ICL to group companies and related parties for further reduction of outstanding loan during Q4FY24 which remains a key monitorable.

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 realisation and profitability.

Key strengths

Experienced promoters having long track record of operations

The company is headed by Mr. N Srinivasan, Vice Chairman and Managing Director, 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. The long-standing track record and financial flexibility of its promoters also provides support to the ratings of ICL. During Q3FY24, promoter's shares pledge has increased from 25.57% to 45.49%.

Established position in south India and strong brand presence

ICL is one of the large 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, 2023, including the presence of its production unit in Rajasthan. ICL sold 9.76 million tonnes in FY23 as against 9.07 million tonnes in FY22 (8.90 million tonnes cement in FY21), operating at capacity utilisation level of 66% in FY23 (P.Y: 58%). The improvement in capacity utilisation is on account of robust demand witnessed by the cement sector on the back of higher infrastructure spending and robust demand from housing sector. 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 62% of the total sales volume of ICL in FY23 as against 54% in FY22, 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. The company has also recently acquired a mine near its Sanakar Nagar (installed capacity of 2.05 MTPA) plant which shall provide a cost benefit as the company gradually utilizes the limestone extracted from these mines to produce clinker.

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 Andhra Pradesh Gas Power Corporation Limited (APGPCL), 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 FY23, 6% of ICL's power requirement was met through CPP as against 36% in FY22, 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. During FY23, the company has also impaired the investment made in APGPCL as the operations of that company had stopped during the year on account of high gas prices. The power consumption increased to 92 KWH/t in FY23 (91 KWH/t in FY22, 83 KWH/t in FY21 and 89 KWH/t in FY20). The management has appointed Boston Consulting Group (BCG) and other technical consultants to identify opportunities to improve the operational efficiencies. BCG has identified measures which would entail a capital expenditure of ₹45 crore and would provide cost benefit of ₹ 200-₹ 250/t to the company and are expected to be implemented by end of FY24. The technical consultants have also identified few opportunities, however, the same shall entail capital expenditure of ₹ 300-350 crore and shall take 2-3 years for implementation. The company has initiated the implementation of efficiency improvement measures identified by BCG.

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. However, in FY23 the company's strategy was to focus on its core markets in Southern India. The share of the total sales volume in the non-southern market stood at 38% compared 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 decreased to ₹1,167 during FY23 (PY: ₹1,177/t). Going forward, the revival of demand in the southern markets is monitorable for the company to scale up its capacity utilisation.

Liquidity: Stretched
The company continues to face stretched liquidity in the light of subdued operational cash flows from business and debt servicing remained largely dependent on the successful divestment from the non-core asset and realization of loans advanced to the group companies and related parties.
Further, the scheduled debt repayment of ICL for FY24 is around Rs. 404 crores (out of which approx. ₹ 282 crore has been paid during 9MFY24 while remaining ₹ 122 crore is payable during Q4FY24). Furthermore, repayment obligations for FY25 and FY26 stand at Rs. 389 crore and Rs. 419 crores (including lease liabilities) against which cash accruals are expected to remain lower. However, the company is continuing its efforts towards disposal of non-core assets and has also recovered more than Rs. 440-450 crores of advances during the 9MFY24 to augment cash flow requirements. The company is also in the process of raising funds for improving the efficiency of the plants and for augmenting the working capital needs as it proposes to take up incremental debt of Rs. 750 crores out of which Rs. 250 will be towards WC limits and remaining Rs. 500 crores towards capex, the same is however at very nascent stage and expected to get finalised in next 2-3 months which shall largely meet the cash flow mismatch of the company for upcoming year.

Environment, social, and governance (ESG) 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. The company has been re-cycling the waste water after treatment from Sewage Treatment Plants for gardening and other factory purposes. During FY23, while PPC production was marginally lower than previous year at 50% against 52%, the overall blended cement proportion including the special application-based products like HSK and CSK was at 56% up by 4% when compared with previous year duly reducing carbon content. The clinker to cement ratio also improved to 0.726 from 0.737 in the previous year. 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.

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 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, 2023. 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)	31-03-2022 (A)	31-03-2023 (A)	9MFY24 (UA)
Total operating income	4,858.35	5,608.28	3,890.12
PBILDT	485.53	(104.63)	105.99
PAT	65.98	(125.01)	(165.70)
Overall gearing (times)	0.67	0.65	Not Available
Interest coverage (times)	2.46	(0.43)	0.59

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	700.00	CARE BB+; Negative
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BB+; Negative
Non-fund-based-Short Term		-	-	-	10.00	CARE A4+
Non-fund-based-Short Term		-	-	-	883.00	CARE A4+
Term Loan-Long Term		-	-	31/03/2032	1987.00	CARE BB+; Negative
Term Loan-Long Term		-	-	31/03/2032	51.00	CARE BB+; Negative

Annexure-2: Rating history of 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 2023-2024	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
1	Term Loan-Long Term	LT*	1987.00	CARE BB+; Negative	1)CARE BBB-; Negative (12-Sep-23)	1)CARE BBB; Negative (13-Mar-23) 2)CARE A-; Stable (25-Nov-22) 3)CARE A-; Stable (08-Nov-22) 4)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)
2	Non-fund-based-Short Term	ST*	883.00	CARE A4+	1)CARE A3 (12-Sep-23)	1)CARE A3 (13-Mar-23) 2)CARE A2+ (25-Nov-22) 3)CARE A2+ (08-Nov-22) 4)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)
3	Fund-based - LT-Cash Credit	LT	700.00	CARE BB+; Negative	1)CARE BBB-; Negative (12-Sep-23)	1)CARE BBB; Negative (13-Mar-23) 2)CARE A-; Stable (25-Nov-22)	1)CARE A; Stable (22-Feb-22) 2)CARE A; Positive (01-Jul-21)	1)CARE A-; Stable (07-Apr-20)

						3)CARE A-; Stable (08-Nov-22) 4)CARE A; Negative (06-Jun-22)	3)CARE A-; Positive (08-Apr-21)	
4	Fund-based - LT-Cash Credit	LT	50.00	CARE BB+; Negative	1)CARE BBB-; Negative (12-Sep-23)	1)CARE BBB; Negative (13-Mar-23) 2)CARE A-; Stable (25-Nov-22) 3)CARE A-; Stable (08-Nov-22) 4)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)
5	Non-fund-based-Short Term	ST	10.00	CARE A4+	1)CARE A3 (12-Sep-23)	1)CARE A3 (13-Mar-23) 2)CARE A2+ (25-Nov-22) 3)CARE A2+ (08-Nov-22) 4)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)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Apr-21)	1)CARE A-; Stable (07-Apr-20)
7	Term Loan-Long Ter	LT	51.00	CARE BB+; Negative	1)CARE BBB-; Negative (12-Sep-23)	1)CARE BBB; Negative	1)CARE A; Stable (22-Feb-22)	1)CARE A-; Stable (07-Apr-20)

						(13-Mar-23) 2)CARE A-; Stable (25-Nov-22) 3)CARE A-; Stable (08-Nov-22) 4)CARE A; Negative (06-Jun-22)	2)CARE A; Positive (01-Jul-21) 3)CARE A-; Positive (08-Apr-21)	

*Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of 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: List of all the entities consolidated

Sr No	Name of the entity	% holding as on March 31, 2023
1	ICL Securities Ltd. India	100.00
2	ICL Financial Services. India	100.00
3	ICL International Ltd. India	100.00
4	Industrial Chemicals and Monomers Ltd. India	98.59
5	PT Coromandel Minerals Resources, Indonesia	100.00
6	PT Adcoal Energindo, Indonesia	100.00
7	Coromandel Minerals Pte. Ltd., Singapore	100.00
8	Raasi Minerals Pte. Ltd., Singapore	100.00
9	Coromandel Electric Company Ltd., India	68.71
10	India Cements Infrastructures Ltd., Indai	100.00
11	Coromandel Travels Ltd. , India	98.50
12	NKJA Mining Pvt. Ltd., India (subsidiary till 10.10.2022)	0
13	Springway mining Pvt. Ltd. , India (subsidiary till 10.10.2022)	0
14	Raasi Cement Ltd., India	43.45
15	Coromandel Sugar Ltd., India	34.35
16	India Cements Capital Ltd.	47.91
17	Unique Receivable Management Pvt. Ltd.	49.20
18	PT. Mitra Setia Tanah Bumbu, Indonesia	49.00

Note on 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-67543596 E-mail: mradul.mishra@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-67543505 E-mail: pulkit.agarwal@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Ravleen Sethi Associate Director **CARE Ratings Limited** Phone: +91-120-4452016 E-mail: ravleen.sethi@careedge.in Bhawna Rustagi Assistant Director **CARE Ratings Limited** E-mail: bhawna.rustagi@careedge.in

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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