The India Cements Limited

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,788.00	CARE BB+ (RWP)	Placed on Rating Watch with Positive Implications
Short Term Bank Facilities	893.00	CARE A4+ (RWP)	Placed on Rating Watch with Positive Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has put the ratings assigned to the bank facilities of The India Cements Limited (ICL) on 'Rating Watch with Positive Implications' following the recent news regarding the acquisition of controlling stake by 'Ultratech Cement Limited (UCL; rated CARE AAA; Stable/A1+)'. UCL is in process of acquiring the entire shareholding of 32.72% from ICL's promoter group (including Sri Saradha Logistics Private Limited). The share purchase agreement for 32.72% of the equity stake has been signed thus UltraTech is effectively expected to gain majority stake considering previous holding of 22.77% shares in ICL, taking UCL's total holding from existing 22.77% to 55.49%. In line with regulatory provisions, UltraTech has also made open offer for approximately 8.06 crore shares to the public shareholders. CARE believes that credit risk profile of ICL will significantly improve after the current transaction concludes and ICL shall benefit from the change in the shareholding with Ultratech being the market leader in domestic cement industry and having sound operating efficiencies and robust financial risk profile. CARE shall review the ratings for the bank facilities of ICL once all the necessary approvals are in place and the transaction is completed in entirety.

The ratings assigned to the bank facilities of ICL were 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. ICL's capital structure has remained leveraged in the past and the repayment of debt in the light of subdued operational cash flows from business, largely been done from recoupment of loans and advances from certain group companies and stretching of creditors.

The ratings, however, derived strength from ICL's long standing position in the southern markets, 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.

CARE Ratings has taken a consolidated approach of ICL, its subsidiaries and associates, as all these entities are in the same line of business, under a common management, and have strong financial and operational linkages. List of entities consolidated given in Annexure-6.

Outlook: NA

[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 weaknesses

Weak financial and operational profile albeit slightly improved in FY24

For FY23, ICL has reported PBILDT loss of ₹105 crores which improved and turned positive ₹163.76 crores in FY24 in line with slight reduction in variable cost due to improved blending and higher capacity utilization. The total volumes sold in FY23 increased to 9.76 MTPA as compared with 9.07MTPA in FY22, 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.
However, the cost per tonne of cement is very high compared to other players, which impacts ICL's performance due to its vintage plants. The refurbishment of the plants is being implemented gradually by the company to reduce the costs and improve efficiency, the implementation and benefits of the same to be seen in near to medium term. CARE further expects improvement in operational efficiency of ICL post the change in management and acquisition of controlling stake by Ultratech. CARE has put the ratings on watch with positive implications impending approvals for the said transaction and shall take the rating action once greater clarity emerges and all the approvals are in place.

Highly leveraged capital structure

Capital structure of the company remained leveraged 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 around ₹2,600 crores 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. The company has been able to meet its debt obligations in FY24 largely from recovery of the loans advanced to group companies approx. ₹446 crore in FY24) along with realization of non-core assets.
CARE believes that ICL's financial risk profile will significantly improve from the change in promoters post the conclusion of acquisition deal by Ultratech. Further, the strong credit risk profile, leadership position in domestic cement industry and financial flexibility of Ultratech would also impart the improvement in operational efficiency and credit risk profile of ICL. CARE shall take the ratings call once more clarity emerges.

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 advanced loans to Sri Saradha Logistics Private Limited (SSLPL) and the company also had trade deposits made with SSLPL as well. The company classified SSLPL as a related party based on the advice letter from the Securities and Exchange Board of India (SEBI). The shareholding of SSLPL in ICL is to be purchased by UCL vide share agreement dated July 28, 2024.

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

Proposed acquisition by Ultratech Cement Limited

The recent announcement of potential acquisition of The India Cements Limited (ICL) by UltraTech Cement Limited (UltraTech) subject to clearance of regulatory approvals. UltraTech's board of directors has approved the purchase of 32.72% equity stake in ICL from the promoter group and other large shareholders. The share purchase agreement for 32.72% equity stake has also been signed, thus UltraTech is effectively expected to gain majority stake considering its previous purchase of 22.77% shares in ICL. In line with regulatory provisions, UltraTech has also made open offer for approximately 8.06 crore to the public shareholders. UCL is the market leader in the Indian cement industry with installed capacity of 140.8 MPTA grey cement across pan-India and 5.4 MTPA overseas as on March 31, 2024. UCL is a part of Aditya Birla Group, a global conglomerate which is operating in 6 continents and 36 countries having ~50% of its revenue from overseas operations. CARE has put the ratings on watch with positive implications due to impending necessary approvals for concluding the said transaction and basis the expectation that this deal would bring in significant operational efficiency and access to funds which may lead to better profitability, lower debt levels and financial risk profile improvement in ICL. CARE Ratings shall take the rating action once greater clarity emerges and all the approvals are in place.

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, 2024, 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 provide cost benefit of ₹ 200-₹ 250/t to the company. The company has initiated the implementation of efficiency improvement measures identified by BCG.

Liquidity: Stretched
The company's liquidity position was 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 FY25 is around ₹389 crores (out of which ₹91 crores have been paid during Q1FY25) against which cash accruals are expected to remain lower. However, the company is continuing its efforts to augment cash flow requirements as it has recently sold off 1.1 MTPA grinding unit at Parli Vaijnath, Beed District, Maharashtra to UCL for a total consideration of ₹315 crores out of which ₹307 crores have been received while remaining ₹8 crores to be received within 9 months.

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

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Cement

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 14.45 mtpa as on June 30, 2024. 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)-Consolidated	March 31, 2023 (A)	March 31, 2024 (Abridged)
Total operating income	5,608.28	5,176.98
PBILDT	(104.63)	163.76
PAT	(125.01)	(227.34)
Overall gearing (times)	0.65	0.47
Interest coverage (times)	(0.43)	0.67

A: Audited; 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 (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 BB+ (RWP)
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE BB+ (RWP)
Non-fund-based-Short Term	-	-	-	-	10.00	CARE A4+ (RWP)
Non-fund-based-Short Term	-	-	-	-	883.00	CARE A4+ (RWP)
Term Loan-Long Term	-	-	-	31/03/2032	1987.00	CARE BB+ (RWP)
Term Loan-Long Term	-	-	-	31/03/2032	51.00	CARE BB+ (RWP)

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 2024-2025	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
1	Term Loan-Long Term	LT	1987.00	CARE BB+ (RWP)	-	1)CARE BB+; Negative (13-Feb-24) 2)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)
2	Non-fund-based-Short Term	ST	883.00	CARE A4+ (RWP)	-	1)CARE A4+ (13-Feb-24) 2)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)
3	Fund-based - LT-Cash Credit	LT	700.00	CARE BB+ (RWP)	-	1)CARE BB+; Negative (13-Feb-24)	1)CARE BBB; Negative (13-Mar-23) 2)CARE A-; Stable	1)CARE A; Stable (22-Feb-22) 2)CARE A; Positive (01-Jul-21)

						2)CARE BBB-; Negative (12-Sep-23)	(25-Nov-22) 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+ (RWP)	-	1)CARE BB+; Negative (13-Feb-24) 2)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)
5	Non-fund-based-Short Term	ST	10.00	CARE A4+ (RWP)	-	1)CARE A4+ (13-Feb-24) 2)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)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (08-Apr-21)

7	Term Loan-Long Term	LT	51.00	CARE BB+ (RWP)	-	1)CARE BB+; Negative (13-Feb-24) 2)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)

LT: Long term; ST: Short term

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

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: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	ICL Securities Ltd. India	Full	Subsidiary of ICL
2	ICL Financial Services. India	Full	Subsidiary of ICL
3	ICL International Ltd. India	Full	Subsidiary of ICL
4	Industrial Chemicals and Monomers Ltd. India	Full	Subsidiary of ICL
5	PT Coromandel Minerals Resources, Indonesia	Full	Subsidiary of ICL
6	PT Adcoal Energindo, Indonesia	Full	Subsidiary of ICL
7	Coromandel Minerals Pte. Ltd., Singapore	Full	Subsidiary of ICL
8	Raasi Minerals Pte. Ltd., Singapore	Full	Subsidiary of ICL
9	Coromandel Electric Company Ltd., India	Full	Subsidiary of ICL
10	India Cements Infrastructures Ltd., India	Full	Subsidiary of ICL
11	Coromandel Travels Ltd, India	Full	Subsidiary of ICL
12	NKJA Mining Pvt. Ltd., India	Proportionate	Subsidiary till 10.10.2022
13	Springway Mining Pvt. Ltd, India	Proportionate	Subsidiary till 10.10.2022
14	Raasi Cement Ltd., India	Proportionate	Associate of ICL
15	Coromandel Sugar Ltd., India	Proportionate	Associate of ICL
16	India Cements Capital Ltd.	Proportionate	Associate of ICL
17	Unique Receivable Management Pvt. Ltd.	Proportionate	Associate of ICL
18	PT. Mitra Setia Tanah Bumbu, Indonesia	Proportionate	Associate of ICL

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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