

## The India Cements Limited

April 05, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	3,740.11 (enhanced from Rs.3,240.87 crore)	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	750.00	<b>CARE A1</b> <b>(A One)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>4,490.11</b> <b>(Rupees four thousand four hundred ninety crore and eleven Lakh Only)</b>		
Commercial Paper (Carved out)	<b>250.00</b>	<b>CARE A1</b> <b>(A One)</b>	<b>Reaffirmed</b>
NCD	<b>92.5</b>	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
<b>Total instruments</b>	<b>342.5</b> <b>(Rs.Three hundred forty two crore and fifty lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities and various debt instruments of The India Cements Ltd (ICL) continues to factor in the market position of ICL in the southern markets as one of the largest players with established presence, 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

The ratings are however, tempered by the susceptibility of the revenues and profitability to the demand-supply dynamics of the cement market, ICL's moderate leverage levels, relatively lower profit margins, exposure to group entities, high debt in relation to cash accruals and cyclical nature of cement industry. The rating also takes note of moderation in the financial performance of ICL during FY18 (refers to the period from April 01 to March 31) and 9mFY19 (refers to the period from April 01 to December 31) on account of increase in input costs in trend with industry.

The ability of the company to reduce its debt levels, improve its profitability & capacity utilization levels and any significant change in demand supply scenario in the industry especially in southern markets will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***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 MTPA (million tons per annum) as on March 31, 2018 including the presence of its production unit in Rajasthan. ICL sold 11.15 million tonnes (mt) cement in FY18 as against 10.84 mt in FY17, operating at capacity utilization level of 71% in FY18 (P.Y: 70%).

ICL continues to remain as one of the major player in the Southern market driven by strong brand image and presence across all the southern states. Overall southern markets accounted for 62% of the total sales volume of ICL in FY18 as against 64% in FY17. The company sells its products under established brands namely 'Sankar', 'Coromandel' and 'Raasi' in the southern markets.

##### ***Integrated nature of operations with presence of Captive Power Plants***

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 25 MW (owned by an associate company), a waste heat recovery system of 7.7 MW in one of its 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 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. During FY18, ICL has purchased 1.6 lakh tonne coal from CMPL. Captive power plants are run on 100% petcoke fuel.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Key rating weakness****Moderation in PBILDT margin during FY18 & 9mFY19 on account of increase in fuel cost in trend with industry**

During FY18, ICL reported 3% growth in the total income on the back of 3% growth in the sales volume of cement with sales realization being stable on y-o-y basis. Notwithstanding the same PBILDT margin during FY18 dropped to 13.71% from 17.10% during FY17 on account of increase in the power & fuel cost. The power & fuel cost per tonne during FY18 increased to Rs.1,111/tonne from Rs.978/tonne during FY17. During 9mFY19, power & fuel cost per tonne further increased to Rs.1,343/tonne. On account of the same, PBILDT margin further dropped to 11.26% during 9mFY19. However, it is to be noted that capacity utilisation witnessed improvement during 9mFY19 on account of improved demand with ICL operating at 78% of the total capacity as against 71% and 70% during FY18 and FY17. Also with increase in selling price of cement by Rs.50/bag from February 2019, profitability of ICL is expected to improve in the short term.

**Exposure to group entities**

Including IndAS transition reserve of Rs.2,035.87 crore, networth of ICL stood at Rs.5,174 crore as on March 31, 2018. As on March 31, 2018 exposure to group companies stood at Rs.1,618 (PY: Rs. 1,502 crore) and accounted for 31% of the total networth. Of this, Rs.586 crore is in the form of investments in equity and debt instruments of various group entities, loans & advances to body corporate & related parties stood at Rs.1,033 crore. In addition to above, ICL has also extended corporate guarantee to the bank facilities availed by its group companies. Amount of such guarantees stood at Rs.193.50 crore as on March 31, 2018.

**Relatively low profitability margins**

PBILDT margin of ICL for the past three years ended March 2018 have remained moderate in the range of 13% to 18%. It is worthwhile to note that 90% of the production capacity of ICL is situated in the southern region, however sales from the southern region constituted around 62% of the total sales. On account of the same, the logistics cost for ICL has remained relatively higher resulting in relatively lower operating profit margins.

**Moderate leverage levels coupled with high debt in relation to accruals**

The overall gearing of ICL, as on March 31, 2018, stood at 0.66x as against 0.65x as on March 31, 2017. The term debt to GCA of ICL as on March 31, 2018, was 8.39x as against 5.07x as on March 31, 2017. During FY18, ICL has raised fresh term loans to the tune of Rs.950 crore, portion of which was used to replace existing term loans to the tune of Rs.604 crore, reduce bank borrowings to the extent of Rs.147 crore and the rest was deployed in working capital to primarily fund the increasing receivable and to augment the liquidity position. On account of the same, term debt from banks increased to Rs.2,627 crore as on March 31, 2018 from Rs.2,204 crore as on March 31, 2017. However, total debt outstanding increased by Rs.206 crore and stood at Rs.3,127 crore as on March 31, 2018 as against Rs.2,921 crore as on March 31, 2017.

**Liquidity**

The cash and bank balance outstanding as on March 31, 2018 stood at Rs.8 crore. Total receivables outstanding as on March 31, 2018 increased to Rs.629 crore from Rs.509 crore as on March 31, 2017 and the collection period in FY18 stood at 39 days as against 34 days in FY17. The inventory period and creditor period continued remain stable at 89 days and 92 days in FY18. The total operating cycle in FY18 stood at 36 days as against 33 days in FY17. The company has sanctioned working capital limit of Rs.717 crore and the average working capital utilisation for the past twelve months ended January 2019 was 41%.

**Industry outlook**

India is the second largest cement market in the world with capacity of ~400 mtpa. Over the last decade, the Indian cement industry has grown at CAGR of ~8%. Although cement volume growth has been weak in the past 3-4 years due to the slowdown in the infrastructure, roads and housing sectors, the same is expected to improve with the focus of the government on housing and the infrastructure development programs, especially in the states of Andhra Pradesh and Telangana.

Although the cement prices holding stable for the past two years ended December 31, 2018, demand for cement witnessed improvement during 9mFY19 with most of the cement players in the south reporting better capacity utilization. On account of the increasing demand, cement prices increased by Rs.50/bag from the month of February 2019 mainly in southern region. It is to be noted that the increase in cement prices came on the back of cement companies suffering from moderation in profitability due to rise in input cost mainly fuel cost. Though the sustainability of the prices is to be seen, cement companies in the short term is expected to reap benefits from the increase in cement prices.

**Analytical approach:**

*Standalone*

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[CARE's methodology for cement manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)
**About the company**

ICL is the one of the largest producers of cement in South India and is one of the largest cement manufacturers in the country with a total installed cement manufacturing capacity of 15.55 mtpa as on March 31, 2018. ICL was established in 1946 by Mr Sankaralinga Iyer and Mr T S Narayanswami and is today headed by Mr N.Srinivasan, Vice Chairman and Managing Director. Including production facilities of TCL, ICL owns and operates ten 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 cement: Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC), the mix being 35:65.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	5,086	5,184
PBILDT	870	711
PAT	173	101
Overall gearing (times)*	0.65	0.66
Interest coverage (times)	2.41	2.09

Including Ind AS transition reserve as part of network

**Status of non-cooperation with previous CRA:** *Not Applicable*

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 2029	2909.34	CARE A; Stable
Non-fund-based-Short Term	-	-	-	740.00	CARE A1

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	700.00	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1
Term Loan-Long Term	-	-	December 2023	80.77	CARE A; Stable
Debentures-Non Convertible Debentures	February 28, 2019	10.00%	February 26, 2021	92.50	CARE A; Stable
Commercial Paper	-	-	7 days to 1 year	250.00	CARE A1

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	2909.34	CARE A; Stable	1)CARE A; Stable (09-May-18)	1)CARE A; Stable (08-Dec-17) 2)CARE A; Stable (15-Sep-17) 3)CARE A-; Stable (26-May-17) 4)CARE A-; Stable (02-May-17)	1)CARE A-; Stable (17-Jan-17)	1)CARE BBB+ (29-Jan-16) 2)CARE A- (11-May-15)
2.	Non-fund-based-Short Term	ST	740.00	CARE A1	1)CARE A1 (09-May-18)	1)CARE A1 (08-Dec-17) 2)CARE A1 (15-Sep-17) 3)CARE A1 (26-May-17)	1)CARE A1 (17-Jan-17)	1)CARE A2 (29-Jan-16) 2)CARE A2+ (11-May-15)
3.	Fund-based - LT-Cash Credit	LT	700.00	CARE A; Stable	1)CARE A; Stable (09-May-18)	1)CARE A; Stable (08-Dec-17) 2)CARE A; Stable (15-Sep-17) 3)CARE A-; Stable (26-May-17) 4)CARE A-; Stable (02-May-17)	1)CARE A-; Stable (17-Jan-17)	1)CARE BBB+ (29-Jan-16) 2)CARE A- (11-May-15)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (18-Apr-17)	-	1)CARE BBB+ (SO) (Under Credit Watch) (11-Feb-16) 2)CARE BBB+ (SO) (Under Credit Watch) (02-Feb-16) 3)CARE A- (SO) (Under Credit

								Watch) (11-May-15)
5.	Fund-based - LT-Cash Credit	LT	50.00	CARE A; Stable	1)CARE A; Stable (09-May-18)	1)CARE A; Stable (08-Dec-17) 2)CARE A; Stable (15-Sep-17) 3)CARE A-; Stable (30-Jun-17) 4)CARE BBB (Under Credit watch with Positive Implications) (18-Apr-17)	-	1)CARE BBB (Under Credit Watch) (11-Feb-16) 2)CARE BBB (Under Credit Watch) (11-May-15)
6.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	1)CARE A1 (09-May-18)	1)CARE A1 (08-Dec-17) 2)CARE A1 (15-Sep-17) 3)CARE A1 (30-Jun-17) 4)CARE A3 (Under Credit watch with Positive Implications) (18-Apr-17)	-	1)CARE A3 (Under Credit Watch) (11-Feb-16) 2)CARE A3 (Under Credit Watch) (11-May-15)
7.	Commercial Paper	ST	250.00	CARE A1	-	1)CARE A1 (15-Sep-17)	1)CARE A1 (17-Jan-17)	-
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (08-Dec-17)	1)CARE A-; Stable (17-Jan-17)	-
9.	Debentures-Non Convertible Debentures	LT	92.50	CARE A; Stable	-	1)CARE A; Stable (15-Sep-17)	1)CARE A-; Stable (27-Feb-17)	-
10.	Term Loan-Long Term	LT	80.77	CARE A; Stable	1)CARE A; Stable (09-May-18)	1)CARE A; Stable (08-Dec-17) 2)CARE A; Stable (15-Sep-17) 3)CARE A-; Stable (30-Jun-17)	-	-

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