The India Cements Limited

September 15, 2017

Ratings

Facility/Instruments	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	2,666.21	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Short-term Bank Facilities	549.31	**CARE A1 (A One)**	**Reaffirmed**
Total	**3,215.52 (Rupees Three Thousand Two Hundred Fifteen Crore and Fifty Two Lakh Only)**		
Commercial Paper (Carved out)	250.00	**CARE A1 (A one)**	**Reaffirmed**
NCD	150.00	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Total instruments	**400.00 (Rupees Four Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the long term bank facilities of The India Cements Limited (ICL) factors the improvement in the operational performance of ICL during FY17 (refers to period April 01 to March 31) and expected improvement in industry scenario.

The ratings 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 and integrated nature of operations with presence of captive power plants. The ratings also take note of significant revenue contribution from non-southern states resulting in geographical diversification of revenue.

The ratings are, however, tempered by the susceptibility of the revenues and profitability to the demand-supply dynamics of the cement market, its moderate leverage levels, relatively lower profit margins, exposure to group entities which has seen reduction post amalgamation of Trinetra Cement Ltd (TCL) and Trishul Concrete Products Ltd (TCPL), high debt in relation to cash accruals and cyclical nature of cement industry.

The ability of the company to improve its profitability, its capacity utilization levels and any significant changes 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 as on March 31, 2017 including the presence of its production unit in Rajasthan. ICL sold 10.84 mn tonnes cement in FY17 as against 9.82 million tonnes in FY16, operating at capacity utilization level of 70% in FY17 (P.Y: 63%). On account of the lower demand coupled with surplus capacity in South India, the capacity utilization continues to remain at lower levels in the past few years. However, 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.

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 capacity (owned by an associate company), a waste heat recovery system of 7.7 MW in one of its plant and AP Gas Power Corporation where the

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 coal through group companies. The coal mines are expected to provide an assured coal source, though the company has an option to sell the same in the market.

Improvement in operational performance during FY17

The total operating income of ICL during FY17 increased by 5% to Rs.5,086 core (net of excise duty) from Rs.4,844 crore in FY16 due to increase in the sales volume of cement. During FY17, the volume of cement sold by ICL increased by 10% to 10.84 million tonnes as against 9.82 million tonnes in FY16. It is to be noted that ICL achieved volume growth of 6% in southern market and 18% in other markets. During Q1FY18, ICL reported sales volume of 2.64million tonnes as against 2.64 million tonnes in Q1FY17.

Key Rating Weaknesses

Moderate leverage levels coupled with high debt in relation to accruals

The overall gearing of ICL, as on March 31, 2017, stood at 1.08x as against 1.18x as on March 31, 2016. The term debt to GCA of ICL as on March 31, 2017, was 5.07x as against 6.83x as on March 31, 2016. During FY17, ICL has refinanced term debt amounting Rs.1,029 crore by way of new term loans with longer repayment tenure of around 11 years. In addition, TCL has also refinanced term loans amounting Rs.150 crore with a longer tenure loan in FY17. While above factors resulted in relatively lower repayment for portion of loans, repayments during FY18-20 continues to be relatively higher.

Exposure to group entities

Excluding IndAS transition reserve of Rs.2,035.87 crore, networth of ICL stood at Rs.3,050 crore as on March 31,2017. Consequent to amalgamation of TCL & TCPL with ICL, the exposure to group companies/entities has come down and stood at Rs.1,502 crore as on March 31, 2017 (Rs.2,791 crore) and accounted for 49% of the networth. Of this, Rs.616 crore is in the form of investments in equity and debt instruments of various group entities, loans & advances to body corporate amounting Rs.749.93 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.375 crore as on March 31, 2017.

Relatively low profitability margins

PBILDT margin of ICL for the past three years have remained moderate in the range of 15% 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 64% of the total sales. On account of the same, the logistics cost for ICL has remained relatively higher.

Industry outlook

After witnessing a slowdown in demand and production on account of demonetization during FY17, the cement sector has gradually started exhibiting signs of revival with all India production witnessing a y-o-y increase of 1.9% for the month of May 2017 vis-à-vis May 2016.

Cement demand in the southern region has remained subdued for the past five years in the absence of major infrastructure projects coupled with decline in the real estate market. However, with various southern states, mainly Andhra Pradesh and Telengana, investing significantly on creation of infrastructure, demand witnessed improvement in southern market in FY17. During FY17, overall industry volume witnessed degrowth of 1.3%, southern market witnessed volume growth of 5%. Going forward, with increased focus of these states in infrastructure spending, demand is expected to improve from H2FY18 onwards. However, in the immediate term industry is facing various challenges due to implementation of RERA (Real Estate Regulation Act) and GST which is likely to result in muted growth in H1FY18.

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 one of the largest producers of cement in South India and one of the largest cement manufacturer in the country with a total installed cement manufacturing capacity of 15.55 mtpa as on March 31, 2017. 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. 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. The amalgamation of Trinetra Cement Limited (TCL - Engaged in production and sale of cement with installed capacity of 1.50 million metric tonne) and Trishul Concrete Products Limited (TCPL - Engaged in sale of ready mix concrete) with ICL has been sanctioned by National Company Law Tribunal and the scheme became effective from April 28, 2017 with appointed date at January 01, 2014. Subsequently, ICL allotted the shares of ICL to the shareholders of TCL and TCPL and all the assets and liabilities of TCL and TCPL stands transferred to ICL as per the scheme.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	4,247	5,086
PBILDT	794	870
PAT	130	168
Overall gearing (times)	1.19	1.08
Interest coverage (times)	2.08	2.41

*Audited P&L of FY16 does not include the financials of the merged subsidiaries and hence not comparable; However for arriving at the rating, CARE has combined the financials of ICL, TCL& TCPL for FY16
A: Audited

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:
Name: Mr. Sudhakar P
Tel: 044 - 2850 1003
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	1871.98	CARE A; Stable
Non-fund-based-Short Term	-	-	-	539.31	CARE A1
Fund-based - LT-Cash Credit	-	-	-	600.00	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	-	-	-	144.23	CARE A; Stable
Debentures-Non Convertible Debentures	-	-	-	150.00	CARE A; Stable
Commercial Paper	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (30-Apr-14)
2.	Term Loan-Long Term	LT	1871.98	CARE A; Stable	1)CARE A-; Stable (26-May-17) 2)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)	1)CARE A (Under Credit Watch) (30-Apr-14)
3.	Non-fund-based-Short Term	ST	539.31	CARE A1	1)CARE A1 (26-May-17)	1)CARE A1 (17-Jan-17)	1)CARE A2 (29-Jan-16) 2)CARE A2+ (11-May-15)	1)CARE A1 (Under Credit Watch) (30-Apr-14)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (02-May-14)
5.	Fund-based - LT-Cash Credit	LT	600.00	CARE A; Stable	1)CARE A-; Stable (26-May-17) 2)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)	1)CARE A (Under Credit Watch) (30-Apr-14)
6.	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)	1)CARE A- (SO) (Under Credit Watch) (21-Apr-14)

							3)CARE A- (SO) (Under Credit Watch) (11-May-15)	
7.	Fund-based - LT-Cash Credit	LT	50.00	CARE A; Stable	1)CARE A-; Stable (30-Jun-17) 2)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)	1)CARE BBB (Under Credit Watch) (21-Apr-14)
8.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	1)CARE A1 (30-Jun-17) 2)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)	1)CARE A3 (Under Credit Watch) (21-Apr-14)
9.	Commercial Paper	ST	250.00	CARE A1	-	1)CARE A1 (17-Jan-17)	-	-
10.	Debentures-Non Convertible Debentures	LT	175.00	CARE A-; Stable	-	1)CARE A-; Stable (17-Jan-17)	-	-
11.	Debentures-Non Convertible Debentures	LT	150.00	CARE A; Stable	-	1)CARE A-; Stable (27-Feb-17)	-	-
12.	Term Loan-Long Term	LT	144.23	CARE A; Stable	1)CARE A-; Stable (30-Jun-17)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691