

The India Cements Limited

December 08, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2,676.35	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	549.31	CARE A1 (A One)	Reaffirmed
Total	3,225.66 (Rs. Three Thousand Two Hundred Twenty Five crore and Sixty Six Lakh Only)		
Proposed NCD*	-	-	Withdrawn

*The company has not placed the proposed NCD amounting to Rs.175 crore;
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings 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 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 and improvement in the operational performance of ICL during FY17 (refers to period April 01 to March 31).

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 million 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 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

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

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 H1FY18, ICL reported sales volume of 5.33million tonnes.

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. Total amount of term loan (Including NCD) outstanding from banks as on March 31, 2017 stood at Rs.2,203 crore of which term loans to the extent of Rs.1,350 crore (Including Trinetra) was refinanced with fresh term loan of relatively longer tenure during FY17. During 8mFY18, ICL has further refinanced old term loan amounting to Rs.350 crore with the help of proceeds from new term loan of relatively longer tenure. On account of the same repayment obligation for the near term has come down

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.

Analytical approach:

Standalone

Applicable Criteria

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

[Policy on Withdrawal of 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. During H1FY18, ICL reported a PAT of Rs.50 crore on a total income of Rs.2,742 crore

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	4,247	5,086
PBILDT	794	870
PAT	130	168
Overall gearing (including acceptances)	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

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.

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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	1887.89	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	-	-	December 2023	138.46	CARE A; Stable
Debentures-Non Convertible Debentures	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures	February 2017	10.00%	February 2021	150.00	CARE A; Stable
Commercial Paper (Carved out)	-	-	7-364 days	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	1887.89	CARE A; Stable	1)CARE A; Stable (15-Sep-17) 2)CARE A-; Stable (26-May-17) 3)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 (15-Sep-17) 2)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 (15-Sep-17) 2)CARE A-; Stable (26-May-17) 3)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)	1)CARE A- (SO) (Under Credit

							(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)	Watch) (21-Apr-14)
7.	Fund-based - LT-Cash Credit	LT	50.00	CARE A; Stable	1)CARE A; Stable (15-Sep-17) 2)CARE A-; Stable (30-Jun-17) 3)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 (15-Sep-17) 2)CARE A1 (30-Jun-17) 3)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 (15-Sep-17)	1)CARE A1 (17-Jan-17)	-	-
10.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A-; Stable (17-Jan-17)	-	-
11.	Debentures-Non Convertible Debentures	LT	150.00	CARE A; Stable	1)CARE A; Stable (15-Sep-17)	1)CARE A-; Stable (27-Feb-17)	-	-
12.	Term Loan-Long Term	LT	138.46	CARE A; Stable	1)CARE A; Stable (15-Sep-17) 2)CARE A-; Stable (30-Jun-17)	-	-	-

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