The India Cements Limited

April 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	3,668.38	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	750.00	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Total	**4,418.38 (Rupees four thousand four hundred eighteen crore and thirty eight lakh Only)**		
NCD	**57.69 (Rupees fifty seven crore and sixty nine lakh only)**	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed rationale & key rating drivers

The revision in the rating assigned to the bank facilities and debt instruments of The India Cements Limited (ICL) factors in the continuation in the moderate financial performance for the past two years ended December 31, 2019 marked by relatively low profitability indicators and increase in debt in relation to gross cash accruals. In view of the prevailing industry scenario, demand for cement will continue to remain subdued in the near term and hence profitability is expected to remain moderate.

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, 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 and cyclical nature of cement industry.

Key rating sensitivities

Positive factors

- *Improvement in profitability and reduction in total debt resulting in total debt/GCA of less than 6.0x on a sustained basis*

Negative factors

- *Deterioration in the capital structure with overall gearing above 0.80x and total debt to GCA above 15x on a sustained basis*

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 December 31, 2019 including the presence of its production unit in Rajasthan. ICL sold 12.4 million tonnes (mt) cement in FY19 as against 11.2 mt in FY18. Capacity utilization after witnessing improvement in FY19 to 79% from 71% in FY18, dropped to 71% in 9mFY20 on account of subdued demand scenario.

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 67% of the total sales volume of ICL in FY19 as against 62% in FY18. 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

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

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 FY19, ICL has purchased 1.03 lakh tonne coal from CMPL.

Key rating weakness

Moderation in PBILDT margin during FY19 on account of increase in power & fuel cost

During FY19, ICL reported 9% growth in the total income on y-o-y basis on the back of 12% growth in the sales volume and 2% drop in the selling price of cement. PBILDT margin during FY19 moderated to 11.82% (PY: 13.71%) on account of rise in fuel cost and drop in selling price of cement. The power & fuel cost per tonne increased by 19% and stood at Rs.1,319/tonne in FY19 as against Rs.1,109/tonne in FY18.

It is to be noted till 9mFY19, PAT reported by ICL was only Rs.26 crore. However, profitability of ICL witnessed improvement in Q4FY19 (PAT of Rs 44cr in Q4FY19 vs PAT of Rs.3 crore in Q3FY19) mainly due to increase in selling price of cement from the month of February 2019. PAT reported by ICL for FY19 stood at Rs.69 crore as against Rs.101 crore in FY18. Selling price of cement during Q4FY19 increased and stood at Rs.4,556/tonne as against Rs.4,343/tonne during Q3FY19. Selling price of cement which increased during Q4FY19 & Q1FY20 started gradually declining from Q2FY20 due to weak demand. During Q3FY20 selling price of cement further dropped and stood at Rs.4,346/tonne on account of drop in demand in the south especially in Andhra Pradesh (AP) and Telangana due to assembly elections. On a cumulative basis till 9mFY20, ICL reported 4% drop in total income on the back of 8% drop in the sales volume of cement and 4% increase in selling price of cement. PAT reported by ICL for 9mFY20 stood at Rs.76 crore as against Rs.26 crore in 9mFY19.

Exposure to group entities

Including IndAS transition reserve of Rs.2,035.87 crore, networth of ICL stood at Rs.5,207 crore as on March 31, 2019. As on March 31, 2019 exposure to group companies stood at Rs.1,710 (PY: Rs. 1,619 crore) and accounted for 33% of the total networth. Of this, Rs.692 crore is in the form of investments in equity and debt instruments of various group entities, loans & advances to body corporate & related parties amounting Rs.1,018 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.140 crore as on March 31, 2019.

Relatively low profitability margins

PBILDT margin of ICL for the past two years ended March 2019 and 9m FY20 remained moderate in the range of 11% to 13%. 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 67% 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, 2019, stood at 0.71x as against 0.66x as on March 31, 2018. Total debt outstanding as on March 31, 2019 increased to Rs.3,368 crore as against Rs.3,100 crore. The working capital borrowings as on March 31, 2019 increased and stood at Rs.337 crore as against Rs.155 crore as on March 31, 2018. Moderate profitability coupled with marginal increase in debt level as on March 31, 2019 has resulted in moderation in term debt to GCA and total debt to GCA. The term debt to GCA of ICL as on March 31, 2019, was 10.11x as against 8.32x as on March 31, 2019. Total debt to GCA of ICL as on March 31, 2019 stood at 12.42x as against 9.60x as on March 31, 2018.

Liquidity

The cash and bank balance outstanding as on March 31, 2019 stood at Rs.7 crore. Total receivables outstanding as on March 31, 2019 increased to Rs.729 crore from Rs.629 crore as on March 31, 2018 and the collection period in FY19 stood at 45 days as against 39 days in FY18. The total operating cycle in FY19 stood at 44 days as against 36 days in FY19. The company has sanctioned working capital limit of Rs.750 crore and the average month end working capital utilisation for the past twelve months ended January 2020 was 63%. As stated earlier, profitability levels are expected to remain moderate in the near term due to unfavorable industry scenario. Scheduled term debt obligations for FY20 is Rs.387crore against GCA of Rs.239 crore achieved in 9mFY20. Scheduled term loan repayment obligation for FY21 is Rs563crore, relatively high as compared to previous financial years and cash accruals of past three years ended March 2019. On account of the same, ability of the company to mobilize additional funds to meet its cash flow requirements is crucial from liquidity perspective.

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%. FY19 has been the fastest growth in production of cement recorded in one single year over the last decade and the overall capacity utilization for the sector was around ~71%.

Although cement prices witnessed improvement from February 2019 after remaining stable for the past two years, the same started declining from August 2019 on account of subdued demand mainly in south India. It is to be noted that Andhra Pradesh (AP) and Telangana (TS) went for assembly elections during Q1FY20. With On account of the same, government's spending on infrastructure projects witnessed a slowdown due to time taken by the newly formed government to stabilize.

With stabilization of the new government in AP & TS the demand for cement and focus of the new government on housing and the infrastructure development programs demand was expected to improve in FY21. However, due to impact of COVID and lockdown of the nation for 21 days, demand for cement in Q1FY21 will remain muted. Going forward, while the cement industry would continue to witness cyclical trends due to inherent nature of the industry, long-term outlook for the cement sector is stable.

Prospects

Though capacity utilisation witnessed improvement, profitability of ICL during FY19 has seen moderation due to rise in input costs. During 9mFY20, though profitability of ICL improved it continued to remain moderate due to drop in the sales volume. The profitability levels are expected to remain moderate in the near term on account of unfavourable industry and economic scenario. In view of the relatively high repayment obligation in FY21 and moderate profitability/accruals ability of the company to mobilise additional funds to meet its cash flow requirement in timely manner is critical. Going forward, 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.

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)	FY18 (A)	FY19 (A)
Total operating income	5,184	5,637
PBILDT	711	651
PAT	101	69
Overall gearing (times)*	0.66	0.71
Interest coverage (times)	2.09	2.01

*Including Ind AS transition reserve as part of networth

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No	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	2837.61	CARE A-; Stable
Non-fund-based-Short Term	-	-	-	-	740.00	CARE A2+
Fund-based - LT-Cash	-	-	-	-	700.00	CARE A-; Stable

Name of the Instrument	ISIN No	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Credit						
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	10.00	CARE A2+
Term Loan-Long Term	-	-	-	-	80.77	CARE A-; Stable
Debentures-Non Convertible Debentures	INE383A07084	February 28, 2019	10.00%	February 26, 2021	57.69	CARE A-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	2837.61	CARE A-; Stable	1)CARE A; Stable (05-Apr-19)	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)
2.	Non-fund-based-Short Term	ST	740.00	CARE A2+	1)CARE A1 (05-Apr-19)	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)
3.	Fund-based - LT-Cash Credit	LT	700.00	CARE A-; Stable	1)CARE A; Stable (05-Apr-19)	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)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Apr-17)	-
5.	Fund-based - LT-Cash Credit	LT	50.00	CARE A-; Stable	1)CARE A; Stable (05-Apr-19)	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)	-

6.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A2+	1)CARE A1 (05-Apr-19)	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)	-
7.	Commercial Paper	ST	-	-	1) Withdrawn (31-Mar-20) CARE A1 (05-Apr-19)	-	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	57.69	CARE A-; Stable	1)CARE A; Stable (05-Apr-19)	-	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 (05-Apr-19)	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)	-

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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