India Ratings & Research
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India Ratings Revises Rain Cements' Outlook to Stable; Affirms 'IND A'

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India Ratings and Research (Ind-Ra) has revised Rain Cements Limited's (RCL) Outlook to Stable from Negative while affirming the Long-Term Issuer Rating at 'IND A'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR300 (increased from INR200)	IND A/Stable	Affirmed; Outlook revised to Stable from Negative
Non-fund-based limits	-	-	-	INR600	IND A1	Affirmed
Non-fund-based limits	-	-	-	INR950 (increased from INR450)	IND A/Stable/ IND A1	Affirmed; Outlook revised to Stable from Negative

Analytical Approach: Ind-Ra has taken a consolidated view of Rain Industries Ltd (RIL, 'IND A'/Positive) and its subsidiaries, including RCL, in view of the strong linkages between RCL and its parent, with full shareholding, common jurisdiction and management. Furthermore, RCL has provided a post-default guarantee for a portion of RIL's debt.

The Outlook revision reflects a similar rating action on RIL. The rating action also factors in the improved margins and the cement demand scenario in 2021, resulting in a reduction in the net leverage (including the corporate guarantee given for the ultimate parent company's debt).

KEY RATING DRIVERS

Improvement in Consolidated Profile: RIL's net leverage (net debt/EBITDA) is likely to improve to 3.2x-3.3x in 2021 (2020: 4.28x, 2019: 4.63x), due to an improvement in operating profit led by a strong recovery in the commodity markets. In 1H21, RIL earned revenue of INR66,123 million and EBITDA of INR13,214 million, resulting in a significant improvement in the EBITDA margin to 20%. Accordingly, the interest coverage (gross interest expense/ operating EBITDA) is likely to improve to 5.0x in 2021 (2020: 3.5x, 2019: 3.3x). Ind-Ra expects the credit metrics to improve over 2022 as the company increases its capacity utilisation at various new capex facilities and begins production at its India facilities. The net leverage was elevated in 2019-2020 due to lower EBITDA levels with sector fundamentals being weak over the said period. RIL's consolidated revenue decreased to INR104,647 million in 2020 (2019: INR123,608 million), due to lower sales volumes owing to COVID-19-led disruptions; however, the EBITDA improved to INR17,387 million (INR14,733 million) due to improve pricing and spreads. Hence, the consolidated EBITDA margin improved to around 16.6% in 2020 (2019: 11.9%).

RIL has 100% ownership of Rain Carbon Inc, which operates the calcined pet coke (CPC) business of the group in North America and India. RIL is the second-largest producer of CPC globally and has a leadership position in India. The group also claims to be in the first quadrant of the global cost curve in the carbon segment vertical. It also has 100% ownership in Germany-based Rutgers through its US-based subsidiary Rain CII Carbon LLC, which is the global leader in the manufacturing of coal tar pitch (CTP) and also has an advanced material division.

Improvement in Standalone Profitability in 2020 Likely to Sustain in 2021: RCL's standalone revenue reduced marginally by 0.8% yoy in 2020 to INR10,300 million, despite a 10.3% yoy decline in the sales volumes to 2.24 million metric tonnes (MMT) (2019: 2.47 MMT; 2018: 2.23 MMT), due to an increase in realisations to INR4,595/MT (2019: INR4,206/MT). The sales volumes were partially impacted by the COVID-19-led disruptions but were benefited from stronger cement demand over 2H20 in the southern region. This in addition to various cost-reduction initiatives supported the company's EBITDA, which rose to INR2,147 million in 2020 (2019: INR1,536 million, 2018: INR710 million), led to an improvement in the margin to 20.8% (14.8%, 7.8%). RCL contributes 8%-9% to the consolidated revenue and around 11% to the consolidated EBITDA.

The profitability, at a standalone level, is likely to sustain in 2021 due to a year-on-year improvement in volumes as well as stronger price realisations. In 1H21, RCL sales volumes stood at 1.56MMT with revenue of INR7,214 million and margin of 46%.

Cost-Reduction Measures Support Standalone Margins: In 2020, RCL undertook certain cost-reduction measures that are likely to result in improved EBITDA margin. The company commissioned a waste heat recovery power plant in Suryapet, Telangana, in September 2019, thereby augmenting the existing power capacity of 6.4MW at the Kurnool cement plant. The unit provides gross power generation of around 4.1MW per hour when the kiln is operational. This facility is likely to help the company save substantially on electricity. Furthermore, RCL has initiated an upgrade of the line 1 cement mill at the Kurnool plant, which will bolster the production capacity. Additionally, RCL has set up a 1MW solar power facility at each of its units at Suryapet and Kurnool in September 2020, which brings about further savings in power cost. An additional 1MW solar plant has been commissioned on 1 October 2021. These projects have been funded entirely through internal accruals.

Credit Metrics to Improve in 2021: RCL's net adjusted leverage (net adjusted debt/operating EBITDAR) is likely to improve to 0.3x in 2021 (2020: 0.66x, 2019: 1.7x, 2018: 2.68x), mainly due to a stronger-than-expected recovery in EBITDA, led by significant improvement in realisations. Ind-Ra has included the post-default corporate guarantee of INR1.3 billion as of 2020 (2019: INR1.97 billion, 2018: INR2,094 million) given to RIL while arriving at the net leverage. If the guarantee is excluded, RCL would be a net cash company. RCL raised term loan of INR199.1 million in 2020 to purchase mining equipment, of which INR91.45 million was outstanding as on 30 September 2021. RCL's interest coverage (operating EBITDA/interest expenses) is likely to remain robust at above 40x in 2021 (2020: 98x, 2019: 128x, 2018 177x) as the company has minimal interest-bearing liabilities and only incurs bank charges on the non-fund-based facilities. RCL raised term loans of around INR225 million in 2020 to purchase mining equipment.

Liquidity Indicator - Adequate: At a consolidated level, RIL had cash and cash equivalent of around USD213 million (including liquid investments) and undrawn working capital lines of USD188 million as on 30 June 2021. It also holds an inter-company deposit of INR554.62 million. On a standalone basis, RCL's average maximum utilisation of the fund-based limits was virtually nil over the 12 months ended September 2021. At end-2020, the company had unencumbered cash of INR126 million and encumbered cash of INR1,765 million. RCL witnessed positive cash flow from operations over 2016-2020 (2020: INR2,482 million, 2019: INR967 million, 2018: INR323 million) and this is likely to continue over 2021-2022. The debt service coverage ratio will be comfortable above 7x over 2020-2021 due to lower repayment obligations and negligible interest costs. The company does not have any capital market exposure and relies on banking channels to meet its funding requirements. RCL has not availed the Reserve Bank of India-prescribed debt moratorium.

Key Industry Risks: RCL faces the risks of volatile cement prices, given the oversupply situation in the south Indian market. Both the integrated cement plants are located in the southern part of the country. The industry also faces demand risk because of the cyclical nature of the housing sector, which accounts for 65% of the demand. The demand from these end-user industries has weakened further due to the COVID-19-led disruptions. Also, the profitability remains exposed to any fluctuations in coal and fuel prices.

RATING SENSITIVITIES

The ratings will move in tandem with the rating of RIL or will get impacted in case of any change in linkages with RIL.

COMPANY PROFILE

RCL produces and sells cement under the Priya brand. Its key markets are Andhra Pradesh, Telangana, Karnataka and Tamil Nadu. The company has an annual cement manufacturing capacity of 4MMT.

FINANCIAL SUMMARY

Particulars	**2020**	**2019**
Revenue (INR million)	10,300	10,384
Operating EBITDA (INR million)	2,147	1,535
EBITDA margin (%)	20.8	14.8
Interest coverage (x)	97.59	127.92
Adjusted net leverage (including corporate guarantees) (x)	0.87	1.47
Source: RCL, Ind-Ra		

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**		
	Rating Type	**Rated Limits (million)**	**Rating**	**31 August 2020**	**3 July 2019**	**13 April 2018**
Issuer rating	Long-term	-	IND A/Stable	IND A/Negative	IND A/Stable	IND A/Positive
Fund-based limits	Long-term	INR300	IND A/Stable	IND A/Negative	IND A/Stable	IND A/Positive
Non-fund based limits	Short-term	INR600	IND A1	IND A1	IND A1	IND A1
Non-fund-based limits	Long-term/Short-term	INR950	IND A/Stable/IND A1	ND A/Negative/IND A1	ND A/Stable/IND A1	-

BANK WISE FACILITIES DETAILS

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COMPLEXITY LEVEL OF INSTRUMENTS

Instrument type	Complexity Indicator
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instrument, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

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