

RATING RATIONALE

16 September 2022

Tamilnadu Cement Corporation Limited

Brickwork Ratings reaffirms the long-term rating for the bank limits of Rs. 60.00 Crores with revision in outlook and reaffirms short-term rating for the bank limits of Rs. 25.00 Crores and simultaneously reaffirms the long-term rating for the bank limits of Rs. 450.57 Crores based on the credit enhancement of Tamilnadu Cement Corporation Limited

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (June, 2021)	Present
Fund Based - Term Loan	626.50	450.57	Long Term	BWR A(CE)/Stable^ [Reaffirmed]	BWR A(CE)/Stable^ [Reaffirmed]
Fund Based- Working Capital	60.00	60.00	Long Term	BWR BBB-/Stable [Reaffirmed]	BWR BBB-/Positive [Reaffirmed with revision in outlook]
Non Fund Based	25.00	25.00	Short Term	BWR A3 [Reaffirmed]	BWR A3 [Reaffirmed]
Total	711.50	535.57	INR Five hundred and Thirty Five crores and Fifty Seven lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank facilities are provided in Annexure-I.

^The CE rating is based on the credit enhancement by way of an Irrevocable and Unconditional guarantee by the Government of Tamil Nadu (GoTN) for the term loan facility. Other bank loan facilities do not carry this explicit credit enhancement and hence, have an unsupported rating.

Ratings: Reaffirmed with revision in outlook

RATING ACTION / OUTLOOK

The revision in the outlook on the standalone long-term rating is driven by the significant improvement in the operating income and profitability of Tamilnadu Cement Corporation Limited (TANCEM or the company), along with other credit metrics. The company has reported a multifold increase in the net accruals as the same stood at Rs. 166.33 crores during FY22(provisional) as against negative cash accruals in the previous year. The EBITDA/MT improved from Rs. 541.99 in FY21 to Rs. 1468.39 in FY22(provisional) and the same is expected to continue, going forward. The improvement in the operating performance has been supported by significant growth in the sales volume by 83%, improved sales realisation and



higher demand and better absorption of fixed costs in FY22(provisional). The company also reported an improvement in its capacity utilisation levels from 43% in FY21 to 72% in FY22 (provisional), resulting in economies of scale.

The rating also takes comfort from TANCEM's long track record in the cement manufacturing business, with an established presence in Tamil Nadu and Kerala. The company's vertically integrated cement operations supported by the clinkerisation facility of 10 lakh tonnes per annum and captive limestone mines also support the rating. The rating also factors in the company's strategic importance to the Government of Tamil Nadu (GoTN) and support given to the company in the form of an unconditional & irrevocable guarantee.

The ratings, however, remain constrained by the modest financial risk profile and geographical concentration risk. The rating also factors in the company's exposure to the inherent cyclicality in the cement industry and susceptibility of the company's profitability to fluctuations in input prices.

Outlook: Positive

The Positive outlook on the standalone long-term rating reflects BWR's expectation that the company will continue to witness stable revenue growth on the back of established presence in the southern region and a favourable demand outlook for the cement industry. The ratings may be upgraded if an improvement in revenues and margins is sustained, leading to an improved financial profile. The outlook may be revised to Stable if the company reports lower-than-expected accruals for operations, or higher-than-expected capital expenditure, or if any deterioration in the working capital cycle weakens its liquidity position.

KEY RATING DRIVERS

Credit Strengths:-

Established track record in the cement business, integrated manufacturing facilities:

TANCEM has an extensive track record of operations in the cement business with an established presence in Tamil Nadu and Kerala for more than four decades. The company has a total cement capacity of 19.20 lakh tonnes per annum, and the operations remain vertically integrated, supported by the clinkerisation facility of 10 lakh tonnes per annum for captive use and captive limestone mines.

Significant improvement in operating performance during FY22:

TANCEM has reported significant growth in its operating income as the same stood at Rs. 803.08 crores in FY22(provisional) as against Rs. 426.73 crores in FY21. The company has reported healthy net cash accruals at Rs. 166.33 crores during FY22(provisional) as against negative net cash accruals in FY2021. The operating profit margin also reported an improvement as the same stood at 27.43% during FY22(provisional) as against 10.98% in FY21 on the back of sales volume growth by around 83% on a y-o-y basis, improved sales realisation, better absorption of fixed costs and a reduction in raw material costs due to the captive clinkerisation facility and limestone mines. Furthermore, the company's focus on increasing the share of CPC cement, which uses 36% less clinker for its production compared to OPC cement, is likely to

support the EBITDA/MT, going forward. Additionally, the demand outlook for cement is positive, given the government's thrust on the affordable housing and infrastructure segments.

State ownership and support:

TANCEM is a wholly owned company of the GoTN. The company has strategic importance to the state as it supplies cement to government departments for their construction activities and also acts as a nodal agency for the Amma Cement Supply Scheme. The GoTN has continuously extended funding support to TANCEM in the form of equity and interest-free term loans. The GoTN has also extended an unconditional and irrevocable guarantee towards the debt servicing of the term loan availed by TANCEM towards the implementation of Ariyalur Cement unit expansion project. The Board of Directors consists of various nominee directors, and the company has experienced and professional management.

Credit Risks-:

Modest financial risk profile:

The company's financial risk profile is marked by adverse capital structure due to high debt levels. Despite the improvement in the company's operating profitability, the gearing ratio continues to remain stretched at 6.89 times and the total outside liabilities/tangible networth stood at 9.79 times as on 31 March 2022 (provisional). However, going forward, the company expects the leverage ratio to improve and remain in the range of 2~3 times with a sustained improvement in net cash accruals and the repayment of long-term borrowings. In addition, the debt coverage indicators have improved, and ISCR stood at 4.62 times and the DSCR at 1.96 times for FY22 (provisional). The company does not have any majorly debt funded capital expenditure plan over the near to medium term, which will further improve its financial risk profile.

Vulnerability of operations to cyclical in economy, susceptibility of profitability to fluctuations in input prices:

The company's operations remain exposed to the movement in demand and pricing in the cement industry, led by the cyclical economic trends and capacity additions by players in such periods. Moreover, the profitability remains vulnerable to fluctuations in input prices (clinker, limestone, coal, pet coke, freight and so on). The elevated prices of coal and diesel can adversely impact the company's profitability.

Intense competition and geographical concentration risk:

The company is operating in the highly competitive cement industry, dominated by large players and wide brand acceptability. Furthermore, the company's operations are restricted to only two states, i.e., Tamil Nadu and Kerala, resulting in significant geographical concentration risk. Therefore, the company's operations are dependent on the level of growth in housing and infrastructure activities in this region.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has principally relied on the standalone audited financials upto FY21 and provisional financials of FY22 and publicly available information/clarification provided by the management

for arriving at the rating of the working capital and non fund based limits of the company. Additionally, BWR has relied on the credit enhancement by way of an Irrevocable and Unconditional guarantee by the GoTN for the company's term loan.

RATING SENSITIVITIES

Positive:

- Significant improvement in revenue and earnings on a sustained basis, resulting in an improvement in the leverage and debt coverage metrics

Negative:

- Significant decline in revenues and earnings on a sustained basis, resulting in the weakening of leverage, coverage metrics and liquidity position
- Any majorly debt funded capital expenditure weakening the financial risk profile and liquidity position

LIQUIDITY POSITION:ADEQUATE

The company has reported cash flow from operations of Rs. 180.63 crores for FY22 (provisional) against cash flow of Rs. 92.63 crores in FY21 due to an improvement in the company's operating profitability. The company also reported net cash accruals of Rs. 166.33 crores against a debt repayment obligation of Rs. 61.39 crores for FY22 (provisional). The company reported cash and cash equivalents of Rs. 73.98 crores as on 31 March 2022 (provisional) as against Rs. 31.11 crores in the previous year. The average utilisation of TANCEM's cash credit limit stood at around 5% during April 2021 to May 2022. The company has made a significant prepayment in the term loan, and principal repayments are expected to be around Rs. 75.24 crores annually over the next two to three years, and the same is expected to be met sufficiently through internal accruals. The company does not have any majorly debt funded capital expenditure planned over the near to medium term.

COMPANY PROFILE

Tamilnadu Cements Corporation Limited (TANCEM), a wholly owned GoTN undertaking, started business from 1 April 1976. The company is engaged in the production of cement and cement-based products and primarily caters to the needs of government departments. The company presently has three cement units with a total installed grinding capacity of 19.20 lakh metric tonnes per annum (MTPA) as on date. The company has one unit located in Alangulam, Tamil Nadu, with a 4 lakh MTPA capacity, which manufactures PPC cement under the **ARASU Brand**, primarily supplying to government departments. This plant also has a wide network of stockists for open market sale and is selling cement in the southern districts of Tamil Nadu and Kerala. Furthermore, the company has a second unit in Ariyalur, Tamil Nadu, with a 5 lakh MTPA capacity and manufactures OPC 43 Grade and PPC under the ARASU brand. The third unit is also in Ariyalur, Tamil Nadu, with a 10 lakh MTPA capacity to manufacture OPC 43 Grade and PPC under the ARASU and VALIMAI brands. The Ariyalur unit primarily supplies cement to government departments. It has a wide network of stockists for open market sales and is selling cement in the central and northern districts of Tamil Nadu and northern districts of Kerala. TANCEM supplies cement to government departments for their construction activities

and also acts as the nodal agency for the Amma Cement Supply Scheme.

The main raw material for the company is limestone, and the company has acquired and reserved enough limestone bearing lands in and around Alangulam and Ariyalur, which are sufficient to run the cement plants for decades to come. The company also has an asbestos unit and stoneware pipe plant; however, the company has not reported any revenue from these units.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2022	FY2021	FY2020
Result Type		Provisional	Audited	Audited
Operating Revenue	Rs. Crs	803.08	426.73	436.98
EBITDA	Rs. Crs	220.28	46.87	-19.47
PAT	Rs. Crs	124.25	-53.05	-31.26
Tangible Net worth	Rs. Crs	88.60	-35.73	17.23
Total Debt/Tangible Net worth	Times	6.89	-21.95	42.73
Current Ratio	Times	0.93	0.65	0.66

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable

RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	8 June 2021	23 March 2020	13 December 2018
Fund Based -Term Loan	Long Term	450.57	BWRA(CE) /Stable (Reaffirmed)	BWR A(CE) /Stable (Reaffirmed)	BWR A(CE) /Stable (Reaffirmed)	BWR A(SO) /Stable (Reaffirmed)
Fund Based -Working Capital	Long Term	60.00	BWR BBB-/ Positive (Reaffirmed with revision in outlook)	BWR BBB-/ Stable (Reaffirmed)	BWR BBB-/ Stable (Reaffirmed)	BWR BBB-/ Stable (Downgraded)
Non Fund Based	Short Term	25.00	BWR A3 (Reaffirmed)	BWR A3 (Reaffirmed)	BWR A3 (Reaffirmed)	BWR A3 (Downgrade)

Total		535.57	INR Five Hundred and Thirty Five crores and Fifty Seven Lakhs Only
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COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Manufacturing Companies](#)
- [Credit enhancement based on corporate guarantee](#)

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ANNEXURE I

Tamilnadu Cement Corporation Limited

Details of Bank Facilities rated by BWR

Sl. No.	Bank Name	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	State Bank of India	Term Loan - Outstanding	450.57	-	450.57
2.		Cash Credit	20.00	-	20.00
3.		Letter of Credit	-	5.00	5.00
4.		Bank Guarantee	-	5.00	5.00
1.	Indian Overseas Bank	Cash Credit	20.00	-	20.00
2.		Letter of Credit (sublimit of CC)	-	(2.75)	(2.75)
4.		Bank Guarantee	-	10.00	10.00
	Indian Bank	Cash Credit	20.00	-	20.00
		Letter of Credit (sublimit of CC)	-	(2.75)	(2.75)
		Bank Guarantee (sublimit of CC)	-	(2.50)	(2.50)
		Proposed Letter of Credit	-	2.50	2.50
		Proposed Bank Guarantee	-	2.50	2.50
TOTAL			510.57	25.00	535.57

Total Rupees Five Hundred and Thirty Five Crores and Fifty Seven Lakhs only.



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