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India Ratings Revises Rain Industries' Outlook to Stable; Affirms 'IND A'

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India Ratings and Research (Ind-Ra) has revised Rain Industries Limited's (RIL) 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
External commercial borrowings	-	-	March 2022	INR801.96 (USD10.8) (reduced from USD22.8)^	IND A/Stable	Affirmed; Outlook revised to Stable from Negative
Term loans	-	-	October 2021	INR1,485.10 (USD20)^	IND A/Stable	Affirmed; Outlook revised to Stable from Negative

^ Reserve Bank of India Reference Rate dated 30 September 2021: 2021: USD 1= INR74.2551

Analytical Approach: Ind-Ra continues to take a consolidated view of RIL and its subsidiaries, as the companies share a common brand, business and management. RIL is the holding company for the carbon, advanced material and cement business operating in the group. Also, two of its major subsidiaries - Rain CII Carbon (Vizag) Ltd (RCCVL; 'IND A+'/Stable) and Rain Cements Limited (RCL; 'IND A'/Stable) have provided corporate guarantees for some of RIL's borrowings.

The Outlook revision reflects a strong improvement in RIL's consolidated net adjusted leverage due to a stronger-than-expected recovery in profitability on account of an improvement in commodity cycle, despite a delay in commercialisation of capex programmes. The agency will continue to monitor the ramp-up across various additional facilities set up by the group and the progress on availability of raw material for its carbon business.

KEY RATING DRIVERS

Credit Metrics to Improve over 2021: RIL's net adjusted 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 adjusted 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 improvement in pricing and spreads. Hence, the consolidated EBITDA margin improved to around 16.6% in 2020 (2019: 11.9%).

Strong Business Profile: The RIL group has been diversifying its product profile. In 2020, the carbon, advanced materials and cement businesses accounted for around 64%, 26% and 10% of the consolidated revenue, respectively, and 70%, 19% and 11% of the consolidated EBITDA, respectively. 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 subsidiary, which is the global leader in the manufacturing of coal tar pitch and also has an advanced material division. The company also owns RCL, which has a 4 million tonnes (MT) of cement manufacturing capacity in South India.

Linkages with Subsidiaries: As RIL is the principal holding company of the group, it has adequate financial flexibility. However, it is dependent on timely and adequate cash flow support from its subsidiaries as it does not have any operation at a standalone level. Any weakness in the credit profiles of RIL's key subsidiaries would reduce the group's financial flexibility, thereby affecting the ratings. At a standalone level, RIL accounted for 0.46% of the consolidated revenue and around 3.32% of the total consolidated debt in 2020. The company has historically relied on timely cash flow support from its US-based subsidiary, Rain Commodities (USA) Inc to service its debt obligations, and on Rain Commodities (USA) and RCL for dividends. Any increase in the debt at a standalone level without any back-to-back cash flow support arrangement from its operational subsidiaries would be a key rating monitorable.

Liquidity Indicator - Adequate: 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. The company plans to incur a total capex of USD90 million over 2021 (1H21: USD33 million) and similar levels in 2022. With its focus on debt reduction and liquidity, RIL does not plan to incur any new major capex in 2021-2022; the capex that would be undertaken would largely be pending capex and routine/maintenance capex not exceeding USD90 million. The steep increase in commodity prices by 40%-45% yoy has increased the working capital cycle, which stood at 135-140 days in June 2021 (2020: 87 days). Accordingly, the incremental cash flows generated through operations was used for working capital purposes than prepaying debt. However, Ind-Ra expects RIL's debt service coverage ratio to remain comfortable at 4.0x-5.0x over 2021-2022, due to minimal scheduled repayments. RIL's major scheduled debt repayment obligations would arise only in 2025 and the management plans to refinance this debt in 2022.

Improvement in Carbon Segment's Profitability: In the carbon segment, RIL acts as a converter, and largely has the ability to pass on any increase/decrease in green petroleum coke (GPC) cost to its customers. While CPC and GPC prices generally move in tandem, the movements in CPC prices might be reflected in GPC costs with a time lag of one or two quarters due to inventory holding. During this period, the difference, if any, may have to be absorbed by CPC producers.
The company benefitted from the time lag in 1H21 with the segment margin improving to around 23% (2020: 13.8%, 2019: 14.39%). Furthermore, since a large portion of RIL's transactions are in USD, the depreciation of the Indian rupee (reporting currency) and the strong sector fundamentals have benefited RIL. The operating EBITDA stood at around INR10,057 million in 1H21 (2020: INR13,857 million, 2019: INR11,688 million). However, the segment is prone to volatility in prices, which is partially mitigated by supplies to larger smelters at the lower end of the cost curve, and hence, is partly insulated from the volatile commodity market. With the strong London Metal Exchange prices and China looking to cut

pollution will increase aluminium smelter production ex-China and could potentially benefit the company.

The segment's volumes decreased in 2020 due to COVID-19-led disruptions with sales volumes at around 2.52MT (2019: 2.62MT). Furthermore, weather disruptions/hurricanes in 1H21 had impacted operations at certain US plants, resulting in lower sales volumes of 1.28MT in 1H21. The management expects to maintain sales volume in 2021 at 2020 levels. The management expects its anhydrous carbon pellets plant in India, which will enable CPC production with lower grade pet coke which is available in India, to become operational by 1H22.This would enable the new 0.37MT Vizag facility to begin operations, despite no specific GPC allocation and would increase segment volumes and profitability. With the import of GPC being limited and subject to allocations, the company received an allocation of around 65% of the FY22 requirement for the existing CPC plant, and the management is confident of receiving the balance allocation in February-March 2022 as has been the case in previous financial years.

Raw Material Availability for Carbon Segment: In October 2018, the Supreme Court of India capped the imports of GPC at 1.40MT for Indian calciners, resulting in a shortfall in domestic supply of the same. In FY22, the company received an initial allocation of 451,891 tonnes (FY21: 481,961 tonnes), which would meet around 65% of the requirement (excluding the new vertical shaft expansion; FY21: 69%) at its operating calcining facilities. To meet the shortfall, RIL is working towards both domestic procurement as (it could have inferior quality in relation to imported GPC, which would impact the margin), and additional import allocation in January-February 2022 from the unutilised portion of the GPC import quota, which the management expects to receive based on the experience. In FY21, the company received an additional allocation of 187,726 tonnes, which resulted in meeting 96% of the existing operating plants requirement.

Furthermore, the company has set up a greenfield CPC plant (370,000-tonne capacity) using vertical shaft technology in the Andhra Pradesh Special Economic Zone; the ramp up has been delayed due to inability to tie up raw material. The capex has largely been incurred and the plant is near ready for operations. The plant was initially scheduled to begin operations in September 2020 but is now delayed to 3Q21. To meet the shortage of anode-grade GPC at this plant, RIL is setting up a 250,000-tonne anhydrous carbon pellets facility, which will be used as feedstock for calcining. The plant, which was scheduled to become operational in 1Q21, is now slated to be completed in 1Q22. Additionally, since the new facility is in a special economic zone, the management is working towards obtaining exemption from the GPC import restriction for this facility. RIL is setting up a similar 200,000-tonne facility in the US, which is operational and running trials.

Both GPC and coal tar availability is likely to be lower globally due to lower refinery runs, COVID-19-related disruptions, among others, while logistics and freight overheads may also be higher. However, the management is confident that it shall have sufficient raw material to meet its requirements and would incur additional logistical costs, if required, to ensure availability of key inputs.

Delay in Ramp Up of HHCR Plant Impacts Advanced Material Segment: RIL is focusing on improving the share of value-added products under the advanced materials segment and increasing its profitability through product optimisation and operating efficiency improvements. The capex to produce the margin-accretive water-white resins from its 30,000TPA hydrogenated hydro carbon (HHCR) plant was completed in May 2020. However, its ramp up has been delayed due to various teething issues, including delays in product approvals. Accordingly, the HHCR plant is likely to ramp up in 2022 than previously estimated 2021. This product is utilised for manufacturing varied consumer products such as food packaging material, and sanitary products, which are imported to Europe. The margin from this is likely to be substantially higher than that of other products within the segment. The delay in ramp up of the HHCR plant has led to EBITDA losses, thereby impacting the overall segment performance. The management believes the impact of this has been partially mitigated by improved fundamentals and profitability from other products within the segment. In 1H21, the sales volumes being lower on an average basis at 0.186MT (2020: 0.398; 2019: 0.44MT), the company earned an EBITDA of around INR1,618 million (INR3,864 million, INR1,490 million).

Strong Performance of Cement Segment: The cement business demonstrated a strong performance led by a strong demand from end-user industries. In 1H21, the cement volumes were high at 1.56MT (2020: 2.24MT; 2019: 2.47MT) while realisations were INR4,610/MT (INR4,576/MT, INR4,182/MT), percolating into EBITDA of INR1,539 million (INR2,171 million, INR1,555 million). In 2H21, the increase in raw material prices could moderate per tonne margin, although be mitigated by the waste heat recovery plant set up by the company.

Weak Standalone Financial Profile; Dependent on Group Entities for Debt Servicing: On a standalone basis, RIL has minimal operations of its own and is dependent on its subsidiaries to service its debt and declare dividends. As RIL is the holding company, its revenue is in the form of dividend income, interest income and service income, apart from trading revenue. In 1H21, it earned revenue (including other income) of INR257.77 million (2020: INR976 million, 2019: INR1,248 million) and an EBITDA (including other income) of INR29 million (INR474.25 million, INR580 million). As of December 2020, RIL's standalone debt stood at USD38 million (around INR2,776 million); the amount has been loaned in full to its US-based subsidiary. The debt has been guaranteed by its Indian subsidiaries - RCCVL and RCL.

In 2020, RIL received dividend income of INR369.41 million (2019: INR366.34 million); of this, INR280.17 million (2019: INR223.54 million) was received from RCL and INR89.24 million (INR142.8 million) from Rain Commodities (USA) . The amount was utilised for making dividend payments to its shareholders.

Commodity Price and Foreign Exchange Fluctuations: RIL's profitability remains exposed to fluctuations in commodity prices, which depend on demand-supply dynamics. It is also exposed to forex risks. The company mitigates this risk to some extent by matching its cash inflows and outflows within the same currency so as to obtain a natural hedge.

RATING SENSITIVITIES

Positive: A sustained improvement in the EBITDA margin while maintaining the working capital cycle, leading to the consolidated net adjusted net leverage reducing below 3.0x on a sustained basis could be positive for the ratings.

Negative: Developments that could, individually or collectively, lead to a negative rating action include:
- lack of timely and adequate support from group entities for debt servicing,
- increase in indebtedness at standalone level without any back-to-back cash flow support arrangement from its operational subsidiaries,
- a decline in the EBITDA margins and/or an elongation of the working capital cycle, leading to the consolidated net adjusted leverage increasing above 4.5x on a sustained basis.

COMPANY PROFILE

Incorporated in 1974, RIL is a holding company with subsidiaries engaged in the manufacturing of cement, CPC, coal tar pitch and downstream products, including resins, modifiers and superplasticisers.

FINANCIAL SUMMARY

Particulars	2020	2019
Revenue (INR million)	104,647	123,608
Operating EBITDA (INR million)	17,387	14,734
EBITDA margin (%)	16.6	11.9
Interest coverage (x)	3.5	3.3
Net adjusted leverage (x)	4.28	4.63
Source: RIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Rated Limits (million)	Rating	31 August 2020	4 July 2019	13 April 2018
Issuer rating	Long-term	-	IND A/Stable	IND A/Negative	IND A/Stable	IND A/Positive
External commercial borrowings	Long-term	INR801.96 (USD10.8)	IND A/Stable	IND A/Negative	IND A/Stable	IND A/Positive
Term loans	Long-term	INR1,485.10 (USD20)	IND A/Stable	IND A/Negative	IND A/Stable	-

BANK WISE FACILITIES DETAILS

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COMPLEXITY LEVEL OF INSTRUMENTS

Instrument type	Complexity Indicator
External commercial borrowings	Low
Term loans	Low

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

SOLICITATION DISCLOSURES

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Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

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