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October 5, 2010

ICRA assigns LAA- (Stable) and A1+ rating to bank facilities and debt programme of Avnija Properties Limited

ICRA has assigned a long term rating of LAA- (pronounced as L Double A minus) to the Rs 1791 crores[1] of fund based bank limits and Rs 1880 crores of Non Convertible Debenture (NCD) programme[†] of Avnija Properties Limited. ICRA has also assigned a MAA- (pronounced as M double minus) rating for Fixed Deposits Programme and Programme and A1+ (pronounced as A one plus) for Rs. 600 crores on Non-fund based bank limits and Rs 200 crores of Commercial Paper Programme of Avnija Properties Limited (APL). ICRA has also assigned stable outlook to the long term rating of APL.

ICRA ratings factor in the business rearrangement undertaken by the Dalmia group, resulting in a greater focus on the cement business and a consolidation of the operational cement units of erstwhile DCBL catering to southern India markets and equity investments in the group's other cement companies (namely OCL India Limited and the greenfield expansion projects (of DCVL[9]) under one company, APL. The ratings also factor in favourably the operational efficiencies of the cement units, established market position in its key consuming markets namely Tamil Nadu and Kerala. The rating also takes into account the long track record of promoters and strong management team of APL. ICRA has also taken a note of equity infusion of Rs 500 crores by globally renowned private equity firm Kohlberg Kravis Roberts (KKR) in APL, in addition to Rs 250 crores of equity infusion option with APL. However, the ratings are constrained by the week position of the cement sector in Southern India following significant capacity additions which are likely to result in pressures on capacity addition as well as pricing pressures in the medium. This has already been reflected by below average capacity utilisations in the company's expansion projects as well as a steep fall in margins in the cement business since H2 of FY 2010. ICRA has also taken note of recent increase in cement prices, enabling the industry to pass on of increased inputs costs. The ratings also factor in the debt levels of the company following significant debt funded capex. While the expected pricing pressures are likely to result in modest profitability and coverage indicators in relation to the assigned rating category, this weakness is significantly offset by the significant equity infusion and sufficiently long tenure and back-ended debt profile of the company, which will enable the company to maintain a satisfactory capital structure and liquidity indicators through the current downcycle.

Till FY 2010, erstwhile Dalmia Group held 100% shareholding in APL, with equity investments of close to Rs 219 crores in APL. This equity was deployed by APL towards the group project company "Dalmia Cement Ventures Limited" (with proposed plans to set up 10 million ton of cement capacity). However, under the group restructuring company been transferred the 8.2 million ton per annum (MTPA) of operational cement capacity of erstwhile Dalmia Cement (Bharat) Limited along with the later's approx. 45% shareholding in OCL Limited. This has enabled the group to consolidate of the operational cement units of erstwhile DCBL catering to southern India markets, investments in group's other cement assets (under OCL catering to eastern Indian) and expansion projects (of DCVL) under one umbrella.

The cement capacity of erstwhile DCBL has more than doubled to 8.2 million ton per annum (MTPA) over last two years (from 3.2 MTPA at a single location at Dalmiapuram, near Trichy), with the commissioning of 2.5 MTPA Kuddapah plant in Andhra Pradesh (AP) in April 2009 and 2.5 MTPA Ariyalur plant in Tamil Nadu (TN) in September 2009. With commissioning of these capacities cement business also reported y-o-y growth in sales volumes of around 20%, this was as against pan India growth of 11 % over the same period. Nonetheless, these expansions were under stabilisation during the initial months, impacting the overall capacity utilisation levels of cement units during FY 2009-10. These expansions also had a bearing on the geographical profile/presence and have resulted in increased exposure to the oversupply impacted markets of Andhra Pradesh (AP). Over the last year, cement realisations for these units in key markets of Tamil Nadu and Kerala, were also impacted by spill over from AP markets and a round of sizable expansions in its key markets. These structurally limestone deficit markets had otherwise been enjoying remunerative realisation backed by strong demand and freight differentials vis-a-vis

[1] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[9] A subsidiary of Avnija Properties Limited

AP based players. Overall, lower realisation coupled with higher operating expenses during FY 2009-10 impacted the cement operating profits adversely. Cement business of erstwhile DCBL reported operating profits of Rs 347 crores on Operating Income (OI) of Rs 1400 crores in FY 2009-10 as against operating profits of Rs 430 crores on OI of Rs 1283 crores in FY 2008-09.

Going forward ICRA expects the capacity utilisations and volumes to show a growth from current levels; however inspite of such growth the capacity utilisations are going to remain at lower levels as compared to what was shown by the company till FY 2009. The realisations too are likely to remain under pressure although expects an improvement from FY 2013 as the supply-demand scenario improves. Notwithstanding these pressures, significant equity infusion, unutilised bank limits and long tenure of debt is likely to result in strong liquidity.

About the company

Avnija Properties Limited (APL) was promoted by Dalmia Group in 1996. Over the last few years, the company has been the investing arm for Dalmia Bharat Sugar and Industries Limited (erstwhile Dalmia Cement (Bharat) Limited). Till May 2010, erstwhile Dalmia Group held 100% shareholding in APL, with equity investments of close to Rs 219 crores in APL. This equity was deployed by APL towards the group project company "Dalmia Cement Ventures Limited" (with proposed plans to set up 10 million ton of cement capacity). In May 2010, Dalmia Group announced Rs 500 crores (already infused) plus Rs 250 crores (option with APL) of equity infusion arrangements by Kohlberg Kravis Roberts (KKR) in APL, on a dilution of around 15~21% stake in APL.

In March 2010, Dalmia Group also announced a scheme of restructuring broadly involving erstwhile DCBL, Dalmia Bharat Enterprises Limited and Avnija Properties Limited. In terms of the scheme of arrangement cement capacity of 8.2 million ton per annum (MTPA) of erstwhile DCBL is being first demergered into a separate company, Dalmia Bharat Enterprise Limited (DBEL), along the power generation assets and refractory operations of DCBL and its quoted and unquoted investments (including holding in OCL India and Avnija Properties Limited). DBEL to inturn transfer cement assets and investments in OCL to now its subsidiary "Avnija Properties Limited". DBEL to issue new shares to all the existing shareholders of DBSIL (erstwhile DCBL) in a ratio of 1:1 share of DCBL: DEBL.

Demerger scheme has been approved by Madras High Court and necessary approvals have been filled with Registrar of companies (RoC). The scheme of demerger is going to be effective from April 1st 2010.

September 2010

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in