Adhunik Cement Limited

Instrument	Amount In Rs. Crores	Rating ActionMarch 2015
NCD Programme	300.00	[ICRA]A (SO) (Stable); assigned
Term Loans	549.00	[ICRA]A(SO)(Stable); outstanding
Fund based limits	82.00	[ICRA]A(SO)(Stable); outstanding
Non fund based limits	45.00	[ICRA]A1(SO); outstanding

ICRA has assigned a long term rating of [ICRA]A(SO) (pronounced as ICRA A S O) to the Rs. 300 Crore* NCD Program of Adhunik Cement Limited (ACL). The outlook on the long-term rating is Stable. The letters SO in the parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms and structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The ratings are based on the letter of comfort provided by Dalmia Cement (Bharat) Limited for due payment of the captioned facilities.

Additionally ACL has rating outstanding of [ICRA]A(SO) (pronounced as ICRA A S O) with a stable outlook for Rs. 549 crore term loans and Rs. 82 crore fund based limits of ACL and [ICRA]A1(SO) for Rs. 45 crore non-fund based limits of ACL.

Rating Rationale

The ratings upgrade takes into account the improvement in capacity utilization of the company in H2 FY15 post repair and maintenance of the cement plant which had broken down in Q1 FY15. Further, the company has already taken substantial write offs on disputable receivables belonging to ACL's erstwhile management. ICRA also takes note of the proposed refinancing of existing term loans of the company with longer tenor debt which has a ballooning repayment structure, resulting in easing of the debt repayment burden on the company. ACL's ratings continue to factor in the company's strong parentage as day-to-day operations of the company are managed by Dalmia Group which has a strong management team and a long track record in running operationally efficient cement units in India. Furher, the turnaround initiatives undertaken by Dalmia post acquisition such as strong brand building exercise, signing off of fuel purchase agreements at lower costs and elongation of debt repayment are likely to support the operational performance of the company. The ratings are also corroborated by various fiscal incentives that ACL is entitled to under NEIIPP†, 2007 and location advantage which provides access to captive limestone mines and high calorific value coal deposits.

However, the ratings are constrained by the weak financial performance of the company as reflected by net loss in FY 2014 on account of a price war in the North Eastern region. Though the prices in North-Eastern region improved wef Feb 2014, ACL's performance in 9M FY15 continued to remain subdued on account of break-down of plant resulting in low capacity utilisation and net loss. The ratings also take into account the high gearing due to debt funded capex, significant decline in net worth due to losses and below average debt protection indicators of the company. Further, the capacity additions in last two years have outwitted demand in the North Eastern India which might impact the cement prices and capacity utilization of players present in this region going forward.

Going forward, Dalmia management's ability to increase ACL's capacity utilization and improve its profitability would remain key rating parameters.

Company Profile

Adhunik Cement Ltd. (ACL) was incorporated in year 2003 as a JV between Adhunik Group and MSP Group, both Kolkata based with the objective of manufacturing and selling cement (both OPC and PPC) in North east India particularly Assam, Meghalaya, Tripura and Manipur. ACL's cement manufacturing plant of 1.5 MTPA capacity and a 25 MW captive power plant was set up with a project cost of Rs. 700 Crore which was funded with a debt equity mix of 4:3. The plant commenced operations in April, 2010 after a delay of 7 months from the stipulated COD. The initial stabilization issues led to low capacity utilization of 11% in FY 2011 and in H1, 2012 as well the capacity utilization

* 100 lakh=1 crore= 10 million

remained low at less than 20% on account of damage of preheated blowers. The debt repayment commencement however remained unchanged in June, 2010. The company's low capacity utilization resulted in inadequate cash generation to service the debt obligations. Furthermore, the promoters faced paucity of funds due to their investment plans in other group companies which led to the promoters divesting their stake in ACL to Dalmia Cement (Bharat) Limited in September, 2012. Currently, DCBL owns 100% stake in ACL. The plant is located in Jaintia Hills, Meghalaya and enjoys a location advantage on account of limestone abundance and access to high calorific value coal deposits in Assam and Meghalaya. It is entitled to various exemptions and subsidies under NEIIPP, 2007‡[†].

In the nine months period ending December 2014, ACL reported loss of Rs. 66.06 crores on operating income of Rs. 292.87 crores. In FY14, the company reported a net loss of Rs. 70.09 crores on an operating income of Rs. 456.76 crores in FY14.

About Dalmia Cement (Bharat) Limited
Dalmia Cement (Bharat) Limited (erstwhile Avnija Properties Limited (erstwhile APL)), incorporated in 1996, was the investing arm for Dalmia Bharat Sugar and Industries Limited (erstwhile Dalmia Cement (Bharat) Limited) in initial years. Till May 2010, erstwhile Dalmia Group held 100% shareholding in erstwhile APL, with equity investments of close to Rs 216 Crore. In May 2010, Dalmia Group announced Rs 500 Crore of equity infusion arrangements (with an option for additional Rs 250 Crore) by Kohlberg Kravis Roberts (KKR) in erstwhile APL. In March 2010, Dalmia Group also announced a scheme of restructuring broadly involving erstwhile DCBL, Dalmia Bharat Limited§ and erstwhile Avnija Properties Limited. In terms of the scheme of arrangement cement capacity of erstwhile DCBL was first transferred to a separate company Dalmia Bharat Limited (DBL), alongwith the power generation assets, refractory operations and quoted & unquoted investments (including holding in OCL). DBL issued new shares to all the existing shareholders of DBSIL (Erstwhile DCBL) in the ratio of 1:1 share of DCBL: DBL. Demerger scheme was approved by Madras High Court and necessary approvals were filed with Registrar of Companies (ROC). The scheme of demerger has been effective from 1st April 2010.

DCBL's cement operations consist of the following capacities: 4.0 MTPA (Dalmiapuram, TN), 2.5 MTPA (Ariyalur, TN) and 2.5 MTPA (Kuddapah, AP). In January, 2012 the company announced acquisition of 50% of stake (which later increased to 76%) in Assam based Calcom Cement India Limited (CCIL) and later in September, 2012 announced acquisition of Meghalaya based Adhunik Cement Limited (ACL). On 30th Nov 2014, DCBL acquired 100% stake in Bokaro Jaypee Cement Limited (BJCL) and changed the name of the company to Dalmia Cement East Limited. In addition to these inorganic expansions, the company is also setting up a Greenfield project of 2.5 MTPA grinding capacity in Belgaum, Karnataka for a total project cost of Rs. 1346 Crore.

DCBL reported profit after tax (PAT) of Rs. 3.04 crores on operating income of Rs. 1693.83 crores in the nine months period ending December 2014. In FY14, the company reported a net loss of Rs. 8.27 crores on operating income of Rs. 2310.38 crores.

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[†] ‡ Under North East Industrial and Investment Promotion Policy all the new industrial units as well as existing units which go in for substantial expansion within the 10 year period from the 1st April, 2007 will be eligible for various incentives such as Excise Duty Exemption, VAT remission, Income Tax Exemption, Capital Investment Subsidy, Interest Subsidy and Transport Subsidy. § Erstwhile Dalmia Bharat Enterprises Limited

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