September 13, 2022

Alsthom Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Working Capital Facilities	5.0	5.0	[ICRA]AA+ (Stable); reaffirmed
Total	**5.0**	**5.0**	

**Instrument details are provided in Annexure-I*

Rationale

While assigning the rating, ICRA has taken a consolidated view of Alsthom Industries Limited (AIL)- a wholly-owned subsidiary of Dalmia Cement (Bharat) Limited (DCBL) which in turn is a wholly owned subsidiary of Dalmia Bharat Limited (DBL), DBL and its subsidiaries, given the common management, strong business and financial linkages, collectively referred as DBL/the Group. DCBL holds a 99.99% stake in AIL. The company, in essence, operates as an extension of DBL in the north-eastern region with complete integration of operations with the parent entity.

The rating reaffirmation factors in Dalmia Bharat Limited's (DBL) strong market position in the markets of southern, eastern and north-eastern India. With a current installed capacity of 37.0 million MTPA, the Group has a strong market presence in each of its markets with around 23% capacity share in the North-East, 18% in the East and 7% in the South which insulates the performance from any downturns in any region. While the commencement of operations of Murli (2.9 million MTPA cement capacity) plant in FY2022 has helped DBL increase its presence in the western region, the ongoing capacity addition of 13.1 million MTPA in its key markets will further strengthen the Group's position.

The operating income (OI) of DBL increased by 11.6% YoY to Rs. 11,286 crore supported by 7% volumetric growth and 3% improvement in the net sales realisations. The revenues are likely to grow by ~14% in FY2023, driven by an expected volumetric growth of ~9-10%, supported by the healthy demand from housing and infrastructure sectors and commercialisation of additional of 4.1 million MT capacity. Further, the leverage and debt coverage metrics remain comfortable with negative net debt as on March 2022. Despite anticipated moderation in the operating profitability by 300-340 bps due to rise in input costs, the debt coverage metrics are expected to remain comfortable in FY2023. The focus on increasing the share of blended cement, higher green power share and supply chain optimisation along with volumetric growth is likely to support the OPBIDTA to an extent. The large ongoing capex along with the decline in profitability is likely to result in an increase in leverage, however, the Net debt/OPBITDA is likely to remain comfortable below 1.5 time in FY2023-FY2024. DBL has capex plans of around Rs. 8000-9000 crore in FY2023-FY2024, is likely to be funded through a mix of debt (40-50%) and internal accruals. ICRA also takes comfort from DBL's strong liquidity profile, supported by a sizeable liquid investment portfolio and cushion in the form of undrawn fund-based limits.

The ratings are, however, constrained by subdued return on capital employed at 7.4% in FY2022 (P.Y: 10.0%). The rating is also constrained by the cyclical nature of the cement industry and susceptibility of operating profits to fluctuations in input prices.

The Stable outlook on the rating reflects ICRA's opinion that the Group will be able to maintain its leadership position in key markets, continue its focus on rationalising costs through various initiatives, maintain comfortable leverage and healthy liquidity position.

Key rating drivers and their description

Credit strengths

Strong market position in key markets of southern, eastern and north-eastern India – With a current installed cement capacity of 37.0 million MTPA, the Group has a strong market presence in North-East, East and South, with around 23%, 18% and 7% capacity share respectively. The commencement of operations of Murli (2.9 million MTPA cement capacity) plant in FY2022 has helped DBL increase its presence in the western region. Further, the planned capacity addition of 6.0 MTPA, 1.4 million MTPA and 4.9 million MTPA in the East, Nort-east and South will reinstate the Group's position in these regions. Through unified branding and marketing across various units, the footprint of the Dalmia brand has expanded significantly. Since the capacities are geographically diversified with 47% in the East, 34% in the South and 11% in the North-East and 8% in the West, the company will be relatively insulated from regional demand-supply fluctuations.

Strong financial risk profile; long-term growth prospects remain strong–The Group's operating income (OI) increased by 11.6% YoY to Rs. 11,286 crore supported by 7% volumetric growth and 3% improvement in the net sales realisations. In Q1 FY2023, it reported revenue growth of 26%, on a YoY basis, to Rs. 3302 crore, majorly supported by increase in sales volumes by 27% YoY to 6.2 million MT. The revenues are likely to grow by ~14% in FY2023, driven by an expected volumetric growth of ~9-10%, supported by the healthy demand from housing and infrastructure sectors and commercialisation of additional of 4.1 million MT capacity.

Cost-reduction initiatives likely to support medium-term profitability – The company has been able to continually improve its operating efficiencies, through increased cement-to-clinker ratio, increasing green share of power consumption, digitisation of sales channel, among others, which has supported the OPBIDTA/MT. Despite the expected pressure on the OPBIDTA/MT in FY2023, which is likely to decline by 12-15% (due to rising input costs of fuel such as coal, pet coke and diesel, the focus on increasing the share of blended cement, higher green power share and supply chain optimisation along with volumetric growth is likely to support the OPBIDTA to an extent.

Capital structure expected to remain strong despite capex plans - DBL has expansion plans of 13.1 MTPA cement capacity and 4.8 MTPA of clinker capacity, which is scheduled to be completed by FY2023-FY2024. In Q1FY2023, cement capacity of 1.1 MTPA and clinker capacity of 2.0 million MT was commissioned as scheduled. Further, there are plans to add 35.4 MW of WHRS and 32.5 MW of solar capacity by March 2023. The leverage and debt coverage metrics remained comfortable with negative net debt as on March 2022.The large ongoing capex along with the decline in profitability is likely to result in an increase in leverage, however, the Net debt/OPBITDA is likely to remain comfortable below 1 time in FY2023-FY2024.

Credit challenges

Subdued return on capital – Increase in capital employed on account of multiple restructurings resulting in recognition of intangibles over the years and the resultant amortisation expense has led to subdued return on capital employed for the company at 7.4% in FY2022. The ongoing capex and decline in margins are expected to keep return metrics subdued in the near term.

Vulnerability of revenues to cyclicality in economy; susceptibility of profitability to fluctuations in input prices– DBL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. When the capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, DBL's operating profitability remains susceptible to fluctuations in input prices. In FY2022, the OPM declined by 577 bps, on a YoY basis, to 21.7% primarily owing to an increase in the power and fuel, raw material and freight costs. The elevated input costs are likely to exert pressure on its operating margins in FY2023.

Liquidity position: Strong

DBL's liquidity is strong, backed by the presence of significant cash and liquid investments of Rs. 4,554 crore as on March 31, 2022 and cushion in the form of undrawn fund based limits (utilization in March 2022 was nil of the total sanctioned limit of Rs. 555.86). Adjusting for investments to the tune of Rs. 2991 crore in Indian Energy Exchange, cash and liquid funds amounted to Rs. 1563 crore as on March 31, 2022. The long-term debt repayment obligations to the tune of Rs. 629.4 crore in FY2023 can be comfortably met from cash flow from operations. The ongoing expansion plans of 12.0 million MT cement capacities, 2.8 million MT clinker capacities, Waste Heat Recovery System (WHRS), solar capacities and upkeep capex pending to be implemented with a total pending capex outlay of ~Rs. 8000-9000 crore is expected to be incurred over FY2023 and FY2024 and funded by a mix of debt (40-50%) and internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the group achieves greater geographical footprint. Also, healthy ramp-up and integration of its new and acquired capacities, which result in significant improvement in the ROCE levels on a sustained basis, would be key for a higher rating.

Negative factors – Significant decline in earnings or significant debt-funded capex or acquisition that weakens the debt protection metrics on a sustained basis will be a negative. Specific credit metric will include net debt to EBITDA increasing beyond 1.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Cement Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them; the rating is therefore based on the consolidated financials of the parent company of the Group, Dalmia Bharat Limited.

About the company

AIL (erstwhile Alsthom Industries) operates a grinding unit with a capacity of 0.5 million MTPA (initial installed capacity of 0.3 MTPA in February 2017) in Assam. The Dalmia Bharat Group owns 99.99% stake in AIL.

About the parent company - DBL

Cement is the core business of the Dalmia Bharat Group, which produces various grades of cement. The cement division generated 98% of the total revenues in FY2022 (94% in FY2021), with the remaining accounted for revenue from Management services. With a total installed capacity of 37.0 milion MTPA, the Dalmia Bharat Group has a strong market presence in each of its markets - East, North-East, South India. Further, the commencement of operations of Murli (2.9 milion MTPA cement capacity) plant in FY2022 has helped DBL consolidate its footprints in western region. Through unified branding and marketing across various units, expanded through organic and inorganic routes, the footprint of the Dalmia brand has increased significantly. The DBL Group also has presence in the refractory business since 1954 through Orissa Cement Limited (OCL), commissioning its first refractory plant. In FY2022, Dalmia-OCL, the refractory business of the Dalmia Bharat Group, has merged all its domestic businesses into a single consolidated entity as Dalmia Bharat Refractories Ltd. (DBRL).

Key financial indicators (audited)

DBL Consolidated	FY2021	FY2022
Operating income	10,110	11,286
PAT	1,184	1,168
OPBDIT/OI	27.4%	21.7%
PAT/OI	11.7%	10.3%
Total outside liabilities/Tangible net worth (times)	0.70	0.55
Total debt/OPBDIT (times)	1.40	1.31
Interest coverage (times)	9.16	12.11

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
Source: Annual report of DBL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & Rating in 2022	Date & Rating in 2021	Date & Rating in 2020
					Sep 13, 2022	Jun 25, 2021	May 15, 2020	Apr 03, 2019
1	Fund based Working Capital Facilities	Long term	5.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (SO) (Stable)
2	Term Loans	Long term	-	-	-	-	[ICRA]AA (Stable); withdrawn	[ICRA]AA (SO) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund based- Working Capital Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based Working Capital Facilities	NA	NA	NA	5.0	[ICRA]AA+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	DBL Ownership	Consolidation Approach
Dalmia Cement (Bharat) Limited (subsidiary of DBL)	100.00% (rated entity)	Full Consolidation
Dalmia Power Limited	100.00%	Full Consolidation
DPVL Ventures LLP (DPVL) (formerly known as TVS Shriram Growth Fund 1B LLP) (w.e.f April 14, 2020)	100.00%	Full Consolidation
D.I. Properties Limited	100.00%	Full Consolidation
Shri Rangam Properties Limited	100.00%	Full Consolidation
Dalmia Minerals & Properties Limited	100.00%	Full Consolidation
Sri Shanamugha Mines & Minerals Limited	100.00%	Full Consolidation
Sri Subramanya Mines & Minerals Limited	100.00%	Full Consolidation
Ishita Properties Limited	100.00%	Full Consolidation
Hemshila Properties Limited	100.00%	Full Consolidation
Geetee Estates Limited	100.00%	Full Consolidation
Sri Swaminatha Mines & Minerals Limited	100.00%	Full Consolidation
Sri Trivikrama Mines & Properties Limited	100.00%	Full Consolidation
Sri Madhusudana Mines & Properties Limited	100.00%	Full Consolidation
Dalmia Bharat Refractories Limited ('DBRL') (Associate of Dalmia Cement (Bharat) Limited)	42.36%	Full Consolidation
Golden Hills Resort Private Limited	100.00%	Full Consolidation
Rajputana Properties Private Limited	100.00%	Full Consolidation
Sutnga Mines Private Limited (subsidiary of Dalmia Minerals & Properties Limited)	100.00%	Full Consolidation
Cosmos Cements Limited (subsidiary of Dalmia Minerals & Properties Limited)	100.00%	Full Consolidation
Calcom Cement India Limited	76.00%	Full Consolidation
RCL Cements Limited (subsidiary of Vinay Cements Limited)	100.00%	Full Consolidation
RCL Cements Limited (subsidiary of Vinay Cements Limited)	100.00%	Full Consolidation
Vinay Cements Limited (subsidiary of Calcom Cement India Limited	97.21%	Full Consolidation
Bangaru Kamakshi Amman Agro Farms Private Limited	100.00%	Full Consolidation
Jayevijay Agro Farms Private Limited	100.00%	Full Consolidation
OCL China Limited (a subsidiary of DBRL)	N.A.	Full Consolidation
OCL Global Limited (a subsidiary of DBRL)	N.A.	Full Consolidation
Alsthom Industries Limited	100.00%	Full Consolidation
Chandrasekara Agro Farms Private Limited	100.00%	Equity Method
Dalmia DSP Limited	100.00%	Equity Method
Hopco Industries Limited	100.00%	
Murli Industries Limited (w.e.f. September 10, 2020)	100.00%	Full Consolidation

Company Name	DBL Ownership	Consolidation Approach
Dalmia OCL Limited (a subsidiary of DBRL)	N.A.	Full Consolidation
Ascension Mercantile Private Limited (w.e.f. March 23, 2021)	100.00%	Full Consolidation
Ascension Multiventures Private Limited (w.e.f. March 23, 2021)	100.00%	Full Consolidation
Radhikapur (West) Coal Mining Private Limited	14.70%	
Sri Swaminatha Mines & Minerals Limited	100.00%	
Dalmia Bharat Green Vision Limited (w.e.f. May 22, 2021)	100.00%	
Dalmia Seven Refractories Limited (a subsidiary of DBRL)	N.A.	
Dalmia GSB Refractories GmbH (a subsidiary of DBRL)	N.A.	
Khappa Coal Company Private Limited (JV of Dalmia Cement (Bharat) Limited	36.73%	Equity Method

Source: Annual report of DBL, N.A-Not available

Note: ICRA has taken a consolidated view of the parent (DBL), its subsidiaries, step subsidiaries, joint venture while assigning the rating including DCBL.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Nijara Kalita
+91 22 6114 3455
nijara.kalita@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches