March 15, 2023

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 ratings, ICRA has taken a consolidated view of Dalmia Cement (Bharat) Limited (DCBL), Dalmia Bharat Limited (DBL), Rajputana Properties Private Limited and Alsthom Industries Limited, given the common management, strong business and financial linkages, collectively referred as DBL/the Group.

The rating reaffirmation factors in Dalmia Bharat Limited's (DBL) strong position in the markets of southern, eastern and north-eastern India, which insulates the performance from any downturns in any region. 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 ratings note the signing of definitive agreement by DCBL on February 04, 2023 for the proposed acquisition of Jaiprakash Associates Limited's (JAL) cement assets located in Central India totalling to 5.2 million MT of cement and 3.3 million MT of clinker capacity, and a 280 MW thermal power plant (which includes transfer of 180 MW TPP to a SPV of which 57% stake shall be held by DCBL) for a total value of Rs. 3,230 crore. The transaction is expected to be completed within six months from the signing of definitive agreement subject to completion of conditions precedents and is proposed to be funded by 80% debt and 20% internal accruals. This acquisition will enable the Group to further diversify its presence by providing entry into the central region and scale up its operations. The Group deferred some of its other planned capex worth Rs. 1,700 crore in the medium term; consequently, the overall capex outlay largely remains at similar level for FY2023-FY2024, as indicated earlier.

The rating continues to consider the strong financial profile of DBL marked by its healthy scale of operations, comfortable leverage and coverage indicators. DBL's operating income (OI) in 9M FY2023 reported a growth of 22%, on a YoY basis, to Rs. 9,628 crore, primarily supported by 17% increase in sales volumes and 4% increase in sales realisation. The revenues are likely to grow by ~15-16% in FY2023, driven by an expected volumetric growth of ~10-11%, aided by the healthy demand and commercialisation of additional of 4.1 million MT capacity. In FY2024, growth in volumes is likely to be ~22-23% YoY with the likely commencement of operations of the additional capacities of ~6.5 million MT and acquired capacities of JAL of 5.20 million MT. The focus on increasing the share of blended cement, higher green power share and supply chain optimisation, along with volumetric growth will support the OPBIDTA to an extent. As on September 30, 2022, the company's net debt (after factoring in free cash and liquid balances, and investments in shares of IEX Limited) stood at Rs. 626.0 crore. The leverage and debt coverage metrics remained comfortable in H1 FY2023 with Net debt/OPBDITA of 0.65 times, interest coverage of 9.55 times (12.11 times in FY2022) and DSCR of 1.65 times (1.37 times in FY2022). DBL has capex plans of around Rs. 9230 crore during the two year period of FY2023 and FY2024. These include acquisition of JAL's and its associates cement and power assets at an enterprise value of Rs. 3230 crore to be funded by 80% debt and 20% internal accruals, and other ongoing capacity expansion plans of around Rs. 6000 crore (of which Rs. 2100 crore has been incurred in 9M FY2023), likely to be funded through a mix of debt and internal accruals. The debt funding for the capex is likely to result in an increase in leverage. Nonetheless, ICRA expects the company's Net debt/OPBITDA to remain comfortable below 1.5 times and DSCR of above 1.5 times in FY2023-FY2024.

The ratings are, however, constrained by the subdued return on capital employed owing to an increase in capital employed on account of multiple restructurings resulting in recognition of intangibles over the years and the resultant amortisation expense.

The ROCE is expected to remain modest over the near to medium term as the Group is in continuous capex mode. Ramping up of the additional and acquired capacities remains critical for an improvement in the ROCE levels. 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 southern, eastern and north eastern regions; greater geographical diversification through ongoing acquisition – 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. Commencement of operations at the Murli (2.9 million MTPA cement capacity) plant in FY2022 helped DBL to increase its presence in the western region. The Group's entry in the central region through the ongoing acquisition of JAL's 5.2-million MTPA cement capacity will further diversify its geographical presence. Additionally, the planned capacity addition of 5.8 MTPA, 1.2 million MTPA and 4.9 million MTPA in the East, North East and South will strengthen 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, 8% in the West, the company will be relatively insulated from regional demand-supply fluctuations.

Healthy scale of operations, strong long-term growth prospects – The Group's OI in 9M FY2023 reported a growth of 22%, on a YoY basis, to Rs. 9,628 crore, primarily supported by increase in sales volumes by 17% YoY to 18.3 million MT and growth in sales realisation by 4% YoY. The revenues are likely to grow by ~15-16% in FY2023, driven by an expected volumetric growth of ~10-11%, aided by the healthy demand from housing and infrastructure sectors and commercialisation of additional of 4.1 million MT capacity. In FY2024, growth in volumes is estimated to be ~22-23% YoY with the likely commencement of operations of the additional capacities of ~6.5 million MT and acquired capacities of JAL of 5.20 million MT.

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 estimated to decline by 12-15% YoY (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 strengthen the OPBIDTA to an extent.

Leverage and coverage indicators expected to remain comfortable despite capex plans – As on September 30, 2022, the company's net debt (after factoring in free cash and liquid balances, and investments in shares of IEX Limited) stood at Rs. 626.0 crore. The leverage and debt coverage metrics remained comfortable in H1 FY2023 with Net debt/OPBDITA of 0.65 times, interest coverage of 9.55 times (12.11 times in FY2022) and DSCR of 1.65 times (1.37 times in FY2022). DBL plans to add 13.1-MTPA cement capacity and 4.8 MTPA of clinker capacity, which is scheduled to be completed by FY2023-FY2024 as well as addition of 35.4 MW of WHRS and 32.5 MW of solar capacity by March 2023. Further, the company has signed definitive agreement to acquire 5.2 million tonnes of cement and 3.3 million tonnes of clinker, and a 280-MW thermal power plant from JAL at an enterprise value of Rs. 3,230 crore, which is expected to be funded by 80% debt. The debt funding for the capex, along with moderation in profitability is likely to result in an increase in leverage. Nonetheless, ICRA expects the company's Net debt/OPBITDA to remain comfortable below 1.5 times and DSCR of above 1.5 times 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 led to subdued return on capital employed at 7.4% in FY2022. The ROCE is expected to remain modest over the near to medium term as the Group is in continuous capex mode. Ramping up of the additional and acquired capacities remains critical for an improvement in the ROCE levels.

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 9M FY2023, the OPM declined by 533 bps, on a YoY basis, to 16.7% primarily owing to an increase in the power and fuel and freight costs. The elevated input costs are likely to exert pressure on its operating margins in FY2023.

Liquidity position: Adequate

DBL's liquidity is adequate[1], backed by the presence of free cash and bank balances of ~Rs. 221 crore and other investments of ~Rs. 1189 crore as on December 31, 2022 and cushion in the form of undrawn fund based limits. The long-term debt principal repayment obligations (for the existing debt) to the tune of ~Rs. 496 crore in FY2023 and ~Rs.183 crore for FY2024 can be comfortably met from cash flow from operations. DBL has capex plans of around Rs. 9230 crore during the two year period of FY2023 and FY2024. These include acquisition of JAL's and its associates cement and power assets at an enterprise value of Rs. 3230 crore to be funded by 80% debt and 20% internal accruals, and other ongoing capacity expansion plans of around Rs 6000 crore (of which Rs. 2100 crore has been incurred in 9M FY2023), likely to be funded through a mix of debt and internal accruals.

Rating sensitivities

Positive factors – Healthy ramp-up and integration of its new and acquired capacities, while maintaining healthy profit levels leading to significant improvement in the ROCE levels on a sustained basis, may trigger a rating upgrade.

Negative factors – Inability to ramp-up the scale of operations and/or generate commensurate returns from the additional capacities to be commissioned/acquired leading to weakening of debt protection metrics, on a sustained basis, may trigger downward rating revision. Any significant increase in indebtedness to fund the future capex or acquisition leading to net debt to EBITDA[2] of more than 1.5 times, on a consistent basis, may exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Cement Industry Rating Approach-Consolidation
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-II), given the close business, financial and managerial linkages

[1] *As on December 31, 2022, the company also had investments in shares of IEX Limited with market value of around Rs. 1863 crore.*

[2] *Net Debt = Total Gross Debt- Unencumbered Cash and Liquid Investments - Investments In IEX*

	among them; the ratings are therefore based on the consolidated financials of the parent company, 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. The company, in essence, operates as an extension of DBL in the north-eastern region with complete integration of operations with the parent entity.

About the parent company - DBL

The Dalmia Bharat Group produces various grades of cement. The cement division generated 98% of the total revenues in FY2022 (94% in FY2021), with the remaining revenues contributed by management services. With a total installed capacity of 37.0 million MTPA, the Dalmia Bharat Group has strong market presence in East, North East, South India. Further, commencement of operations at the Murli (2.9 million MTPA cement capacity) plant in FY2022 helped DBL to consolidate its presence in the western region. It has significantly increased its footprint by following unified branding and marketing practises across various units, through organic and inorganic routes. The DBL Group has presence in the refractory business since 1954 through Orissa Cement Limited (OCL), 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	9M FY2023
Operating income	10,110	11,286	9,628
PAT	1,184	1,168	445
OPBDITA/OI	27.4%	21.7%	16.7%
PAT/OI	11.7%	10.3%	4.6%
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	9.46

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
					Mar 15, 2023	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 (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: Click Here

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

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