May 31, 2021

Dalmia Laminators Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	85.00	85.00	[ICRA]BBB- (Stable); Rating reaffirmed
Fund-based – Term Loan	100.00	98.25	[ICRA]BBB- (Stable); Rating reaffirmed
Non-Fund based	37.00	37.00	[ICRA]A3; Rating reaffirmed
Unallocated Limits	-	1.75	[ICRA]BBB- (Stable)/ [ICRA]A3; Ratings reaffirmed
Total	**222.00**	**222.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has considered the consolidated profiles of Dalmia Laminators Ltd. (DLL), Dalmia Tea Plantation and Industries Ltd. (DTPIL) and Bateli Tea Company Ltd. (BTCL) while reaffirming the ratings.

The reaffirmation of ratings considers a steady operational and financial performance of the MLD Group on an aggregate basis in FY2021 compared to the previous fiscals with largely stable debt coverage indicators. The ratings continue to factor in the experience of the promoters and position of the MLD Group in the plastic woven sacks (PWS) and the bulk tea industry in India. DLL has a proven track record of supplying to some of the largest players in the cement, fertiliser and petrochemical industries. It is one of the largest players in the PWS industry with an installed capacity of ~28,000 MTPA having its plants in Tamil Nadu and Andhra Pradesh, in proximity to key customers. The tea companies operate primarily on the bought-leaf segment, which mitigates the risks associated with the fixed cost nature of production of tea plantation companies as the cost of green leaves largely moves in tandem with that of black tea realisations. With an aggregate production of tea of around 10 million kg in FY2021, the companies supply to some of the leading packet tea companies in India. The ratings, however, are constrained by the fragmented nature of the PWS industry, which result in significant competition, keeping the operating profitability of players under pressure. While the prices of polypropylene granules, the primary raw material, remain volatile, the presence of price variation pass-on clause in most contracts, however, mitigates the risks of large volatility. The return on capital is also impacted by the working capital-intensive nature of operations. ICRA notes that working capital requirements, across all the three companies, witnessed a material increase in FY2021. In addition, the ratings also factor in the agro-climatic risks associated with the tea business as tea is an agricultural commodity. Cyclicality inherent in the tea industry leads to volatility in profitability and cash flows. The ratings are also constrained by the moderate capital structure and debt coverage indicators of the Group with an estimated gearing of 1.5 times (excluding intergroup loans), interest cover of 2.1 times and total debt to OPBDITA of 5.2 times in FY2021. A consistent increase in the working capital requirements increased the debt levels of the Group over the past few years. A further increase in the working capital requirements of the Group in FY2021 was funded by the COVID-19 Emergency Credit Line (CECL) and Guaranteed Emergency Credit Line (GECL) facilities, which resulted in an increase in the total debt of the Group in FY2021 in comparison to the previous year. However, this has resulted in some headroom in terms of working capital limits, which are expected to support liquidity going forward, particularly given the sizeable repayments due over the medium term.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the aggregate cash flows of the Group would be adequate to support its debt service requirements. Headroom in working capital limits provides some additional comfort as well.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the industry – The promoters of the company have over three decades of experience in the PWS and bulk tea industries.

Diversified business profile of the Group – The MLD Group has a diversified presence in the PWS and the bulk tea industries. DLL is one of the largest players in the PWS industry with an installed capacity of 28,000 MTPA having its plants in Tamil Nadu and Andhra Pradesh, in proximity to key customers. Its customers include some of the largest players in the cement, fertiliser and petrochemical industries. Its other two Group companies, DTPIL and BTCL, are involved in production and processing of tea having their own estates in West Bengal and Assam, respectively. The combined production of the two companies stood at ~10 million kg of made tea in FY2021, entirely of the CTC variety.

Group profit margins remain steady – The Group's profit margins have remained stable in the range of ~13-15% over the last few years. While the prices of polypropylene granules, the primary raw material for DLL, remain volatile, the presence of price variation pass-on clause in most of the contracts, mitigates risks of such volatility, while keeping the margins steady at ~11-12%. Additionally, with almost 85% of the production made from purchased green leaves, the operating profitability of the tea business has remained steady over the past few years. This mode of production mitigates the major risks that plantation tea companies face – that of fixed-cost nature of operations as the prices of green leaves move in tandem with that of black tea.

Group's established business relationship with reputed companies – DLL gets a major portion of its revenue from the cement industry, followed by the fertiliser and petrochemicals industry. The share of business from cement companies has reduced over the past few years, while that from fertiliser and petrochemical companies has increased, lowering the industry concentration risks. Moreover, client concentration risks of DLL are mitigated by the large and established position of the companies in their respective industries. On the other hand, tea is sold through a mix of private and auction sales to a diverse customer base.

Credit challenges

Moderate capital structure and debt coverage indicators of the Group – The capital structure and debt coverage indicators of the Group remained moderate with an estimated gearing of 1.5 times (excluding intergroup loans) and an interest cover of 2.1 times and total debt to OPBDITA of 5.2 times in FY2021. ICRA notes that working capital requirements across all the three companies witnessed a material increase in FY2021 as well. These were funded by CECL and GECL facilities, which resulted in an increase in the total debt of the Group in FY2021 compared to the previous year. However, this has resulted in some headroom in working capital limits, which is expected to support its liquidity going forward, particularly given the sizeable repayments due over the medium term.

Limited scope for margin expansion – The PP sack manufacturing industry is fragmented with more than 200 players. High proportion of small-scale units operating in this industry results in a fragmented nature of the industry, leading to intense competition among the players. The basic raw material for DLL is PP granules, which is a derivative of crude oil, and hence its price is determined by global crude oil prices. DLL's profitability remains exposed to fluctuations in raw material prices, however, the same is mitigated to some extent through the pass-on arrangement with customers. The above factors limit the scope for any significant margin expansion. Further, DLL procures the major portion of its raw materials from large petrochemical suppliers, posing a risk of supplier concentration and low bargaining power. Limited credit period on procurement along with sizeable receivables and / or inventory put pressure on the working capital profile of the company. This along with a range-bound profitability kept the overall business returns subdued, with an overall RoCE of 9.0% in FY2020. In addition, the tea business of the MLD Group operates primarily on the bought leaf segment, whereby the prices of made tea move in tandem with the fluctuations in prices of green tea, limiting the scope for any significant margin expansion in tea also.

Risks associated with tea for being an agricultural commodity – Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Additionally, the inherent cyclicality of the fixed-cost intensive tea industry leads to variability in profitability and cash flows of bulk tea producers, such as DTPIL and BTCL. However, ICRA notes that higher share of bought leaf operations reduces the risks associated with the fixed-cost nature of the bulk tea industry.

Liquidity position: Adequate

The debt repayment obligation of the company and the Group remains sizeable over the medium term. However, steady cash accruals from the businesses are likely to keep the overall cash flows adequate relative to the debt service obligations. The Group's liquidity is also supported by access to funds at competitive rates under the Priority Sector Lending. The company also availed CECL and GECL facilities in FY2021, which will provide some cushion to its liquidity position in the near term.

Rating sensitivities

Positive factors – A DSCR of more than 1.30 times on a sustained basis for the aggregated financials of the Group will be a trigger for ratings upgrade.

Negative factors – Any large debt-funded capex, resulting in a deterioration in the capital structure of the company and/or the Group, a decline in profitability and/or any sizeable increase in debt repayment obligation leading to a deterioration in the debt coverage indicators could also be triggers for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	DLL is a part of the MLD Group
Consolidation/Standalone	Consolidated View ICRA has consolidated the performance of DLL along with its Group companies, Dalmia Tea Plantations and Industries Ltd. (DTPIL) and Bateli Tea Company Ltd. (BTCL), given the common management of the three companies

About the company

Established in 1972, Dalmia Laminators Ltd. is a part of the M L Dalmia Group, which is involved in diverse businesses. It is one of the leading manufacturers of plastic woven sacks (PWS) used for bulk packaging of cement, fertilisers, food grains and sugar, chemicals and other commodities. It has manufacturing operations in Tamil Nadu and Andhra Pradesh. Group companies, DTPIL and BTCL, are involved in plantation and processing of tea in West Bengal and Assam, respectively. The combined production of the two companies stood at ~10 million kg of made tea in FY2021, entirely of the CTC variety. With almost 85% of the production from purchased green leaves, the operating profitability of the tea operations has remained steady over the last few years.

Key financial indicators

Standalone	FY2019 (audited)	FY2020 (audited)	9M FY2020 (unaudited)	9M FY2021 (unaudited)
Operating Income (Rs. crore)	292.28	269.73	204.12	164.10
PAT (Rs. crore)	6.76	7.01	5.94	-1.02
OPBDIT/OI (%)	11.11%	11.11%	10.77%	10.00%
PAT/OI (%)	2.31%	2.60%	2.91%	-0.62%
Total Outside Liabilities/Tangible Net Worth (times)	1.86	2.02	-	-
Total Debt/OPBDIT (times)	5.27	6.72	-	-
Interest Coverage (times)	1.75	1.52	1.52	1.07

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	428.21	413.86
PAT (Rs. crore)	15.20	18.19
OPBDIT/OI (%)	14.22%	14.20%
PAT/OI (%)	3.55%	4.40%
Total Outside Liabilities/Tangible Net Worth (times)	1.85	1.76
Total Debt/OPBDIT (times)	5.14	5.56
Interest Coverage (times)	2.11	2.10

Source: *Dalmia Laminators Ltd., ICRA research*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) Mar 31, 2020	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					May 31, 2021	-	Mar 26, 2020	Apr 09, 2019	-
1	Cash Credit	Long-term	85.00	-	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
2	Term Loan	Long-term	98.25	94.86	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
3	Non-fund based	Short-term	37.00	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A3	-
4	Unallocated Limits	Long-term/ Short-term	1.75	-	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based – Cash Credit	Simple
Short-term Non-fund based	Very Simple
Long-term/ Short -term – Unallocated Limits	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	85.00	[ICRA]BBB- (Stable)
NA	Term Loan	FY2020	-	FY2028	98.25	[ICRA]BBB- (Stable)
NA	Non-fund based	-	-	-	37.00	[ICRA]A3
NA	Unallocated Limits	-	-	-	1.75	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: *Dalmia Laminators Ltd.*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dalmia Tea Plantations and Industries Ltd.	-	Full Consolidation
Bateli Tea Company Ltd.	-	Full Consolidation

Note: ICRA has taken a consolidated view of DLL, DTPIL and BTCL while assigning the ratings.

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