

August 25, 2022

Dalmia Laminators Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash Credit	85.00	85.00	[ICRA]BBB-(Stable); Reaffirmed
Long term – Fund based – Term Loan	98.25	96.37	[ICRA]BBB-(Stable); Reaffirmed
Short term - non-fund based – BG	37.00	25.00	[ICRA]A3; Reaffirmed
Short term - non-fund based – LC	-	12.00	[ICRA]A3; Reaffirmed
Long term/ Short term – Unallocated Limits	1.75	3.63	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Total	222.00	222.00	

*Instrument details are provided in Annexure I

Rationale

For arriving at the ratings, ICRA has considered the consolidated business risk profiles of Dalmia Laminators Ltd. (DLL), Dalmia Tea Plantation and Industries Ltd. (DTPIL) and Bateli Tea Company Ltd. (BTCL), referred to as the MLD Group/ Group, given the common management of the three companies.

The ratings consider the steady operational and financial performances of the MLD Group on an aggregate basis 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 industries in India. DLL has a proven track record of supplying to some of the largest players in 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 12 million kg in FY2022, the companies supply to some of the leading packet tea players in India. The ratings, however, are constrained by the fragmented nature of the PWS industry, which results 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 to an extent. The return on capital is also impacted by the working capital-intensive nature of operations. In addition, the ratings also factor in the agro-climatic risks associated with the tea business as tea is an agricultural commodity. Cyclicity 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 2.3 times and total debt to OPBDITA of 5.4 times in FY2022. A consistent rise 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 FY2022 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 FY2022 compared to the previous year. ICRA also notes that the Group has applied for enhancement of working capital limits which, if sanctioned on a timely basis, will provide some liquidity, particularly given the sizeable repayments due over the near term.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the entity is expected to maintain its business position/ revenue growth while sustaining the profitability levels.

Key rating drivers and their description

Credit strengths

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

Strong client profile – Dalmia Laminators Limited (DLL) derives the major portion of its revenue from the cement industry, followed by the fertiliser and petrochemicals industries. The share of business from cement companies has reduced over the past few years, while that from foodgrain and petrochemical companies has increased, lowering the industry concentration risk to some extent. Moreover, client concentration risks of DLL are mitigated to an extent due to the established position of the customers in their respective industries. On the other hand, tea is sold through a mix of private and auction sales to a diverse customer base including Tata Consumer Products Limited (rated at [ICRA]AAA (Stable)/ [ICRA]A1+), a major customer for both the tea companies of the Group, accounting for ~60% of the top line.

Diversified business portfolio of the Group – The MLD Group has a diversified presence in the plastic woven sacks and the bulk tea industries. DLL is one of the largest players in the plastic woven sacks 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 cement, fertiliser and petrochemical industries. Its other two Group companies, Dalmia Tea Plantation and Industries Limited (DTPIL) and Bateli Tea Company Limited (BTCL), are involved in producing and processing of tea and have their own estates in West Bengal and Assam, respectively. BTCL has one garden in the lower part of Assam and DTPIL has one garden at Darjeeling plains. The combined production of the two companies stood at ~12 million kg of made tea in FY2022, entirely of the CTC variety with bought leaf contributing ~85% to the total sales.

Group's profit margin remains 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 ~10-11%. Additionally, with ~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.

Credit challenges

Working capital intensive operations – 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 FY2022 was funded by the Covid19 Emergency Credit Line (CECL) and Guaranteed Emergency Credit Line (GECL) facilities, which resulted in an increase in the total debt of the Group in FY2022 in comparison to the previous year. ICRA also notes that the Group has applied for enhancement of working capital limits, which will provide some support to the liquidity, particularly given the sizeable repayments due over the near term.

Overall capital structure of the Group remains leveraged; debt coverage indicators subdued – 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 ~2.3 times and total debt to OPBDITA of 5.4 times in FY2022. However, the debt coverage indicators are expected to improve to some extent, going forward, on account of the stable nature of business.

Supplier concentration risk in packaging business; low bargaining power against large suppliers – 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 granule, 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, which exposes it to the risk of supplier concentration and low bargaining power. Limited credit period on procurement along with sizeable receivables and / or inventory holding put pressure on the working capital profile of the company. This along with a range-bound profitability kept the business returns subdued, with an overall RoCE of ~9% in FY2022. 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.

Risk involved with tea for being an agricultural commodity - Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Additionally, the inherent cyclicity 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 company also availed CECL and GECL facilities in FY2022 and FY2023, which provides some cushion to its liquidity position. Further, the liquidity is expected to remain adequate on account of proposed enhancement of working capital limits.

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 weakening of liquidity could be triggers for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Bulk Tea Industry
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, foodgrains and sugar, chemicals and other commodities. It has manufacturing operations in Tamil Nadu and Andhra Pradesh. Its 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 ~12 million kg of made tea in FY2022, entirely of the CTC variety. With purchased green leaves accounting for ~85% of the production, the operating profitability of tea operations remained steady over the last few years.

Key financial indicators

Standalone	FY2021	FY2022*
Operating income (Rs. crore)	269.8	367.6
PAT (Rs. crore)	3.9	6.2
OPBDIT/OI (%)	11.4%	9.8%
PAT/OI (%)	1.5%	1.7%
Total outside liabilities/Tangible net worth (times)	2.1	2.1
Total debt/OPBDIT (times)	7.1	6.5
Interest coverage (times)	1.5	1.5

*Unaudited, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators

Consolidated	FY2021	FY2022*
Operating income (Rs. crore)	460.3	553.2
PAT (Rs. crore)	16.2	17.9
OPBDIT/OI (%)	14.5%	13.1%
PAT/OI (%)	3.5%	3.2%
Total outside liabilities/Tangible net worth (times)	1.8	1.8
Total debt/OPBDIT (times)	5.5	5.4
Interest coverage (times)	2.3	2.3

*Unaudited, 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 (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Aug 25, 2022			May 31, 2021	-
1	Cash Credit	Long-term	85.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Term Loan	Long-term	96.37	90.98	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Non-fund based – BG	Short-term	25.00	-	[ICRA]A3	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
4	Non-fund based – LC	Short-term	12.00	-	[ICRA]A3	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
5	Unallocated Limits	Long-term/Short-term	3.63	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash Credit	Simple
Long term – Fund based – Term Loan	Simple
Short term - non-fund based – BG	Very Simple
Short term - non-fund based – LC	Very Simple
Long term/ Short term – Unallocated Limits	NA

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/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based – Cash Credit	NA	NA	NA	85.00	[ICRA]BBB-(Stable)
NA	Long term – Fund based – Term Loan	FY2020	NA	FY2028	96.37	[ICRA]BBB-(Stable)
NA	Short term - non-fund based – BG	NA	NA	NA	25.00	[ICRA]A3
NA	Short term - non-fund based – LC	NA	NA	NA	12.00	[ICRA]A3
NA	Long term/ Short term – Unallocated Limits	NA	NA	NA	3.63	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company; Note: Amount in Rs. Crore

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidated 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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