

Dalmia Cement (Bharat) Limited

Instrument	Amount (In Rs. crore)	Rating Action
Term Loans	2423.25 enhanced from 2348.00	[ICRA]AA (Stable); assigned/outstanding
Short Term Loan	148.94	[ICRA]A1+; assigned
Non-fund based limits	675.00 revised from 742.00	[ICRA]A1+; outstanding
NCD Programme	2143.33	[ICRA]AA (Stable); outstanding
Fund based limits	400.00	[ICRA]AA (Stable); outstanding
Commercial Paper/ Short-term debt programme	600.00	[ICRA]A1+; outstanding
Fixed deposit	7.59	MAA (Stable); outstanding

ICRA has assigned long term rating of [ICRA]AA (pronounced as ICRA double A)¹ to the Rs. 2423.25 crore² (enhanced from Rs. 2348.00 crore) Term Loans of Dalmia Cement Bharat Limited (DCBL). The long term rating carries Stable outlook. ICRA has also assigned short term rating of [ICRA]A1+ (pronounced as ICRA A one plus) to the Rs. 148.94 crore Short Term Loan and reaffirmed short term rating of [ICRA]A1+ assigned to Rs. 675.00 crore (revised from Rs. 742.00 crore) non fund based facilities of DCBL.

Additionally, ICRA has long-term rating outstanding of [ICRA]AA (pronounced as ICRA double A) with a stable outlook for Rs. 2143.33 Crore NCD Program, and Rs. 400 Crore fund based limits, short term rating outstanding of [ICRA]A1+ (pronounced as ICRA A one plus) for Rs. 600.00 crore CP/STD programme and MAA (pronounced as M double A) rating with a Stable outlook for the Rs 7.59 crore Fixed Deposit Programme of DCBL.

The ratings continue to factor in the cash accretive and operationally efficient cement operations of DCBL as well as the Dalmia group as a whole which is expected to result in strong profitability and improved coverage indicators in the medium term. The group has a strong market position in its key markets of Southern, Eastern and North Eastern India. Improved demand outlook in the southern market, particularly Andhra Pradesh and Telangana, and also significant cost optimizations (procurement as well as logistics) and plant efficiencies achieved by the company should support operating profits going forward. The proposed restructuring (merger of OCL India Limited (OCL) and Dalmia Cement East Limited (DCEL) into Odisha Cement Limited (wholly owned subsidiary of OCL) and the proposed merger of Adhunik Cement Ltd (ACL, wholly owned subsidiary of DCBL operating in North East region) with DCBL) will not only provide operational synergies in the Eastern and North eastern operations of the group, but will also result in tax benefits for DCBL.

ICRA continues to draw comfort from the company's established management, strong operating efficiencies, established brand and the fact that the bulk of the company's cement capacities are located in Tamil Nadu and cater mainly to the relatively more attractive cement markets of Tamil Nadu and Kerala, which enables the company to enjoy a relatively higher capacity utilization, realizations and operating profit per tonne of cement sold as compared to cement companies located in AP and Karnataka. Moreover, the recent cost reduction initiatives taken by management such as increased reliance on pet coke and lignite instead of imported coal and utilization of waste gases from cement operations are likely to support DCBL's profitability and enable the company to generate healthy accruals in the medium term.

ICRA however notes that the capacity utilisation of DCBL has been impacted and stood at a modest 51% in FY2016, in line with the other major players operating in the Southern region, given the prevailing overcapacities and the tepid demand conditions. The prevailing overcapacity also makes the company's cash flows vulnerable to risks of pricing pressure, although in this context ICRA takes note of steady price trends in the region in the last 8 quarters. Further, debt funded capacity expansions undertaken by the company in recent past (2.7 MTPA plant in Belgaum) as well as acquisitions of Calcom Cement India Limited-CCIL and

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

Adhunik Cement Limited-ACL and increase in stake in OCL have resulted in moderation of capitalization and coverage indicators of the company at a consolidated level.

Going forward, the ability of the company to stabilize the operations at Adhunik Cement Limited and the Belgaum plant and to exercise control over costs will remain key rating sensitivities. With expected lower capital expenditures over the medium term in comparison to the past, coupled with likely growth in earnings, DCBL's capital structure is expected to improve over the medium term.

Company Profile

Dalmia Cement (Bharat) Limited (erstwhile Avnija Properties Limited (erstwhile APL)), incorporated in 1996, in initial years has been the investing arm for Dalmia Bharat Sugar and Industries Limited (erstwhile Dalmia Cement (Bharat) Limited). 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 Limited³ and erstwhile Avnija Properties Limited. In terms of the scheme of arrangement cement capacity of 8.2 million ton per annum (MTPA) of erstwhile DCBL was first transferred to a separate company Dalmia Bharat Limited (DBL), along with 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 April 1st 2010. In Q4 FY2016, DBL has acquired KKR's stake in DCBL and thus DCBL has now become a wholly owned subsidiary of DBL.

DCBL's cement operations consist of the following capacities: 4.2 MTPA (Dalmiapuram, TN), 2.6 MTPA (Ariyalur, TN) and 2.6 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 100% acquisition of Meghalaya based Adhunik Cement Limited (ACL). In Mar 2014, DCBL has acquired 74% stake in Bokaro Jaypee Cement Limited (BJCL) for a consideration of Rs. 690 crore. The company further increased its stake in BJCL to 100% (total consideration Rs. 925 crore) in December 2014. The company has also increased its stake in OCL (6.7 MTPA) to 74.6% in February 2015. In addition to these inorganic expansions the company has also set up a Greenfield project of 2.7 MTPA cement capacity in Belgaum, Karnataka for a total project cost of Rs. 1584 crore. The plant has commenced production taking the aggregate installed capacity of the company to 12.1 MTPA and of the group to 25.0 MTPA.

During Q1 FY2017, the company reported profit after tax of Rs 51.53 crore on net sales of Rs 665.31 crore as against profit after tax of Rs 48.26 crore on net sales of Rs 617.62 crore during Q1 FY2016. DCBL reported profit after tax of Rs. 183.3 crore on net sales of Rs. 2341.3 crore in FY2016 as against profit after tax of Rs. 68.1 crore on net sales of Rs. 2329.3 crore in FY2015 driven by higher realizations and lower freight and power and fuel cost per ton.

About CCIL

Calcom Cement India Limited (CCIL) is a part of the Kolkata based B K Group promoted by Mr. B. K Bawri. CCIL was incorporated in 2004 to manufacture PPC cement. Dalmia Bharat acquired a 50% stake in Assam-based Calcom Cement in January 2012, increasing its stake to 75.6% in November 2012. At the time of the acquisition, Calcom's grinding and clinker capacity was 1.3 MnT and 0.3 MnT respectively, which was subsequently expanded to 2.1 MnT of grinding and 1.3 MnT of clinker capacity. The clinker unit has commenced operations from March 2015.

About Adhunik Cement Ltd

Adhunik Cement Ltd (ACL) was incorporated as a JV between Adhunik Group and MSP Group. ACL with 1.5 MTPA cement manufacturing capacity and a 25 MW captive power plant located in Jaintia Hills, Meghalaya is the one of the largest player in North east India. The plant sells close to 60% of its produce in Assam, 20% in Meghalaya and rest in other states namely West Bengal, Mizoram, and Tripura. ACL has an OPC and PPC sales mix of 3:1. The plant commenced operations in the April, 2010. The plant enjoys location advantage in terms of presence in Jaintia Hills which is rich in high-grade limestone deposits and entitlement to various incentives and subsidies under North-East Industrial and Investment Promotion Policy (NEIIPP), 2007.

³ Erstwhile Dalmia Bharat Enterprises Limited

About Dalmia Cement East Ltd

Dalmia Cement East Ltd (DCEL, erstwhile Bokaro Jaypee Cement Limited) was a joint venture between Jaiprakash Associate Limited (Jaypee) and SAIL with 74% shareholding of Jaypee and 26% of SAIL. DCBL bought Jaypee's share in March 2014 and SAIL's share in December 2014. DCEL has a 2.1 MTPA cement plant in Bokaro, Jharkhand which became operational in Oct 2011. The company primarily produces Portland Slag Cement whereby slag is procured from SAIL's steel plants located in the vicinity. The company has a long-term contract with SAIL for purchase of slag and with Jaypee for purchase of clinker. The installed capacity has been increased through debottlenecking and currently stands at 2.6 MTPA.

September 2016

For further details please contact:

Analyst Contacts:

Mr. Sabyasachi Majumdar (Tel. No. +91 124 4545304)
sabyasachi@icraindia.com

Siddhartha Kaushik (Tel. No. +91 124 4545 323)
siddhartha.kaushik@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

© Copyright, 2016, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500