

Dalmia Cement (Bharat) Limited

December 06, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore ¹)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	800.00	1200.00	[ICRA]A1+ ² ; Assigned
Fund-based Term Loan	2622.09	2622.09	[ICRA]AA (Stable); Outstanding
Fund-based Working Capital Facilities	375.00	375.00	[ICRA]AA (Stable); Outstanding
Unallocated – Long Term	25.00	25.00	[ICRA]AA (Stable); Outstanding
Non-fund Based Working Capital Facilities	675.00	675.00	[ICRA]A1+; Outstanding
Non Convertible Debenture	1182.00	1182.00	[ICRA]AA (Stable); Outstanding

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into account the cash accretive and operationally-efficient cement operations of Dalmia Cement Bharat Limited (DCBL) as well as the Dalmia Bharat Group. Its strong market position and brand in its key markets of southern, eastern and north-eastern India also support the ratings. The geographically-diversified cement capacities act as a buffer against regional supply-demand imbalances. The rating action continues to factor in the cost optimisations (procurement as well as logistics) and plant efficiencies which have buffered input cost pressures in H1 FY2019 to an extent.

Debt-funded capacity expansions and acquisitions undertaken by the company in have resulted in the moderation of its capitalisation and coverage indicators at the Group level. Nevertheless, ICRA's ratings take comfort from the significant unutilised cash and liquid funds available to the Group which can cover more than two years of debt-servicing obligations at any point of time. The company's margins are exposed to the cyclicity in the cement industry as well as price trends for raw materials and other inputs.

The corporate restructuring schemes of the Group have been approved and subsequently, all cement companies (excluding Dalmia DSP Cement Limited, Alstom Industries Limited and Calcom Cement India Limited, which continue to remain the subsidiaries of DCBL) have been merged with DCBL (which is now wholly owned subsidiary of Odisha Cement Limited). This simplified the corporate structure is expected to remove redundancies and enhance operational and financial synergies.

The ability of the company to maintain a prudent funding mix and its expansion/acquisition plans will be the key rating drivers going forward. ICRA notes that any sustained demand slowdown or adverse movement in input costs can have an impact on the Group's profitability. However, the geographical diversification of its assets and operational synergies should mitigate the same to an extent.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that DCBL will continue to benefit from its operationally-efficient and geographically-diversified capacities which will limit the impact of regional demand fluctuations. The outlook may be revised to Positive if a significant improvement in demand outlook ultimately results in higher realisations, and in turn improves the company's profitability. The outlook may be revised to Negative if the company pursues significant organic/inorganic growth opportunities that lower liquid funds and/or increase debt.

Key rating drivers

Credit strengths

Strong market position in key markets of southern, eastern and north-eastern India – DCBL has a strong market presence in each of its markets with ~7% capacity share in the South, 12% in the East and 26% in the north-eastern region in FY2018. Through unified branding and marketing across various units, the footprint of the Dalmia brand has expanded significantly.

Long track record of promoters in cement business – The promoters have almost eight decades of experience in the cement business of since the establishment of cement division of DCBL in 1939. Through focussed efforts, the installed capacity of the Group has increased from 1.2 million tonne (mnT) in FY2006 to 26.6 mnT as on September 30, 2018 (capacity of 1.1 MTPA capacity added through acquisition of erstwhile Kalyanpur Cement Ltd).

Benefits from economies of scale and geographical diversification in long run – With capacity of 25.3 MTPA (as on March 31, 2018) and current capacity utilisation of 67% in FY2018, the company will benefit from an increase in capacity utilisation which will help in bringing down its fixed cost per tonne. Since the capacities are geographically diversified (48% in the southern region, 37% in the eastern region and 15% in the north-eastern region), the company will be relatively insulated from regional demand fluctuations.

Significant cash and liquid balances – The cash and liquid balances of the Group stood at Rs 3,306 crore against a total debt of Rs. 7,119.0 crore as on September 30, 2018. Thus, the net debt of the Group stood at Rs. 3,813 crore. Presence of significant liquid funds, which provide cover for the next two years of debt servicing obligations is a strong source of comfort for the assigned ratings. Even though the repayment obligations will be high in the next three to four years, these cash balances will provide adequate buffer against price decline and cost increases which may weaken the cash accruals.

Cost-reduction initiatives likely to support profitability in medium term – The company has been able to continually improve its operating efficiencies, through increased cement-to-clinker ratio (lower clinker consumption), introduction of Portland Composite Cement or PCC (lower slag consumption), reduction of power consumption, digitisation of sales channel and efficient management of target regions among Group companies driving logistics efficiencies. Despite the increase in fuel prices, it has been able to bring down its logistics cost during H1 FY2019. Although there has been an increase in raw material and power and fuel costs during H1FY2019, the company has been able to buffer the same through increased volumes resulting in lower fixed cost per tonne.

Credit challenges

Debt-funded organic and inorganic expansions resulting in moderate debt-coverage indicators – Acquisition of ACL, CCIL, increase in stake in OCL and set up of greenfield plant in Belgaum have resulted in building up of the Group's debt levels. Post completion of capital expenditure, the net debt levels of the Group have come down from Rs. 6,028.2 crore

as on March 31, 2016 to Rs. 3,813.0 crore as on September 30, 2018. In addition, debt funding (70%) of 7.8 mnT capacity addition in the East is going to result in higher debt levels (against the earlier estimates). Though the debt levels continue to be high, resulting in moderate debt coverage indicators, the presence of significant cash and liquid funds available in the Group is a strong source of comfort.

Vulnerability to cyclical trends – The company is exposed to cyclical trends in supply and demand in the cement industry. With the building of brand and reducing per tonne fixed costs on account of vintage and improving scale of operations, the ability of the company to absorb the resultant impacts of subdued demand/excess supply have improved.

Liquidity position

The debt levels of the company continue to be high (Rs 7119 crore as on September 30, 2018) and will remain elevated on account sizeable capex of ~Rs 4000 crore for 7.8 mnT cement capacity in East, to be incurred over FY2019-FY2021, which is proposed to be funded in debt: equity of 70:30. Not much comfort can be drawn from the drawing power of the Group, as the same continues to be low on account of low working capital intensity of operations. Nevertheless, the liquidity position is comforted by significant cash and liquid funds available in the Group (Rs 3306 crore as on September 30, 2018) which are more than sufficient to cover the debt servicing requirements for the next two years.

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

About the company

Dalmia Cement (Bharat) Limited (erstwhile Avniya Properties Limited), incorporated in 1996 is a cement player with an installed capacity of 26.6 MTPA. Its cement operations consist of the following capacities – 4.2 MTPA, Dalmiapuram, Tamil Nadu; 2.6 MTPA, Ariyalur, Tamil Nadu; 2.6 MTPA, Kuddapah, Andhra Pradesh and 2.7 MTPA, Belgaum, Karnataka; 6.7 MTPA in Raganpur, and Kapilas in Orissa and Midnapore, West Bengal; 2.6 MTPA in Bokaro, Jharkhand; 2.1 MTPA in Lanka, Assam (Calcom Cement India Limited, DCBL holds 76% stake); 1.5 MTPA in Jaintia Hills, Meghalaya; 0.5 MTPA in Assam (Alstom Industries Limited, wholly-owned subsidiary of DCBL); and 1.1 MTPA in Bihar (Dalmia DSP Cement Limited, erstwhile Kalyanpur Cements Ltd, wholly-owned subsidiary of DCBL).

In FY2018, the company reported a net profit of Rs. 230 crore on an operating income (OI) of Rs. 7,886 crore. Corporate restructuring schemes of the Group were made effective in October 2018, (post-merger FY2017 numbers for the same are not available). Hence, the FY2018 numbers shown in the tables below are not comparable to the previous year.

Key financial indicators (audited)

	FY2017*	FY2018
Operating Income (Rs. crore)	3186	7886
PAT (Rs. crore)	-67	230
OPBDIT/OI (%)	25.5%	23.7%
RoCE (%)	6.8%	-
Total Debt/TNW (times)	3.4	0.7
Total Debt/OPBDIT (times)	7.8	3.7
Interest Coverage (times)	1.3	2.8

*prior to scheme of arrangements for OCL India Limited and Dalmia Cement East Limited were made effective

^detailed schedules not available, hence the same has not been computed

Key financial indicators of Odisha Cement Limited³ (audited)

	FY2017*	FY2018
Operating Income (Rs. crore)	7404	8828
PAT (Rs. crore)	432	291
OPBDIT/OI (%)	25.7%	23.0%
RoCE (%)	11.8%	-^
Total Debt/TNW (times)	2.0	0.7
Total Debt/OPBDIT (times)	4.2	3.6
Interest Coverage (times)	2.1	2.9

*prior to scheme of arrangements for OCL India Limited and Dalmia Cement East Limited were made effective

^detailed schedules not available, hence the same has not been computed

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

³ Post restructuring this is the holding company of the Group, name to be changed to Dalmia Bharat Limited

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016
				December 2018	April 2018	February 2018	April 2017	September 2016	June 2016	February 2016
1 Term Loan	Long Term	2622.09	1813.85*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
2 Fund-based Facility	Long Term	375.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
3 Unallocated	Long Term	25.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
4 Non Convertible Debenture	Long Term	1182.00	1037.00*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)
5 Non-fund Based Facility	Short Term	675.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 Commercial Paper	Short Term	1200.00	500.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7 Fixed Deposit	Medium Term	-	-	-	-	-	-	MAA (Stable)	MAA- (Positive)	MAA- (Stable)

*as on September 30, 2018

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Commercial Paper	-	80-90 days	7.35-7.75%	1200.00	[ICRA]A1+
NA	Fund Based Working Capital Facility	-	-	-	375.00	[ICRA]AA (Stable)
NA	Unallocated	-	-	-	25.00	[ICRA]AA (Stable)
NA	Non Fund Based Working Capital Facility	-	-	-	675.00	[ICRA]A1+
NA	Term Loan 1	March 30, 2015	-	March 30, 2030	398.99	[ICRA]AA (Stable)
NA	Term Loan 2	March 23, 2017	-	March 31, 2030	355.67	[ICRA]AA (Stable)
NA	Term Loan 3	March 2, 2017	-	December 31, 2032	518.04	[ICRA]AA (Stable)
NA	Term Loan 4	March 3, 2009 June 7, 2013	-	July 7, 2017 May 2, 2022	41.19	[ICRA]AA (Stable)
NA	Term Loan 5	October 4, 2016	-	April 4, 2019	145.80	[ICRA]AA (Stable)
NA	Term Loan 6	December 30, 2016	-	December 31, 2031	294.90	[ICRA]AA (Stable)
NA	Term Loan 7	February 22, 2017	-	December 31, 2031	196.60	[ICRA]AA (Stable)
NA	Term Loan 8	March 15, 2017	-	March 15, 2019	266.12	[ICRA]AA (Stable)
NA	Term Loan 9	April 8, 2017	-	May 2020	404.78	[ICRA]AA (Stable)
INE755K07181	NCD	January 8, 2016	9.91%	January 8, 2019	210.00	[ICRA]AA (Stable)
INE755K07199	NCD	January 8, 2016	9.91%	January 8, 2020	198.00	[ICRA]AA (Stable)
INE755K07207	NCD	January 8, 2016	9.91%	January 8, 2021	297.00	[ICRA]AA (Stable)
INE755K07116	NCD	August 28, 2014	10.75%	August 7, 2018	35.00	[ICRA]AA (Stable)
INE755K07124	NCD	August 28, 2014	10.75%	August 7, 2019	40.00	[ICRA]AA (Stable)
INE755K07140	NCD	August 28, 2014	10.75%	August 7, 2018	35.00	[ICRA]AA (Stable)
INE755K07157	NCD	August 28, 2014	10.75%	August 7, 2019	30.00	[ICRA]AA (Stable)
INE755K07025	NCD	January 7, 2013	10.75%	January 6, 2020	67.00	[ICRA]AA (Stable)
INE755K07223	NCD	October 19, 2016	8.65%	October 19, 2019	125.00	[ICRA]AA (Stable)
INE755K07231	NCD	October 19, 2016	8.65%	October 19, 2020	125.00	[ICRA]AA (Stable)
INE755K07249	NCD	October 19, 2016	8.70%	October 19, 2021	20.00	[ICRA]AA (Stable)

Source: Dalmia Cement (Bharat) Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Odisha Cement Limited (ODCL, Holding company of Dalmia Bharat Group)	-	Full Consolidation
Dalmia Cement Bharat Limited (subsidiary of ODCL)	100%	Full Consolidation
Dalmia Power Limited (subsidiary of ODCL)	100%	Full Consolidation
Kanika Investments Limited (subsidiary of ODCL)	100%	Full Consolidation
Subsidiaries/ Joint Ventures of Dalmia Cement Bharat Limited		
Calcom Cement India Limited (CCIL)	76%	Full Consolidation
Vinay Cements Limited (VCL, subsidiary of CCIL)	97.21%	Full Consolidation
RCL Cements Limited (subsidiary of VCL)	100%	Full Consolidation
SCL Cements Limited (subsidiary of VCL)	100%	Full Consolidation
Dalmia DSP Cement Limited	100%	Full Consolidation
Alsthom Industries Limited	99.99%	Full Consolidation
Bangaru Kamakshi Amman Agro Farms Private Limited	100%	Full Consolidation
D.I. Properties Limited	100%	Full Consolidation
Dalmia Minerals & Properties Limited (DMPL)	100%	Full Consolidation
Cosmos Cements Limited (subsidiary of DMPL)	100%	Full Consolidation
Sutnga Mines Private Limited (subsidiary of DMPL)	100%	Full Consolidation
Geetee Estates Limited	100%	Full Consolidation
Golden Hills Resorts Private Limited	100%	Full Consolidation
Hemshila Properties Limited	100%	Full Consolidation
Ishita Properties Limited	100%	Full Consolidation
Rajputana Properties Private Limited	100%	Full Consolidation
Jayevijay Agro Farms Private Limited	100%	Full Consolidation
Shri Rangam Properties Limited	100%	Full Consolidation
Sri Dhandauthapani Mines & Minerals Limited	100%	Full Consolidation
Sri Madhusudana Mines & Properties Limited	100%	Full Consolidation
Sri Shanmugha Mines & Minerals Limited	100%	Full Consolidation
Sri Swaminatha Mines & Minerals Limited	100%	Full Consolidation
Sri Subramanya Mines & Minerals Limited	100%	Full Consolidation
Sri Trivikrama Mines & Properties Limited	100%	Full Consolidation
Chandrasekara Agro Farms Pvt Ltd	100%	Full Consolidation
OCL Global Limited (OGL)	100%	Full Consolidation
OCL China Limited (subsidiary of OGL)	90%	Full Consolidation
Khappa Coal Company Private Limited	36.73%	Equity Method
Radhikapur (West) Coal Mining Private Limited	7.03%	Equity Method

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