December 14, 2020

Dalmia Cement (Bharat) Limited: Rating reaffirmed and withdrawn for commercial paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	2569.90	2569.90	[ICRA]AA (Stable); Outstanding
Fund-based – Working Capital Facilities	989.40	989.40	[ICRA]AA (Stable); Outstanding
Non-fund Based – Working Capital Facilities	1785.75	1785.75	[ICRA]A1+; Outstanding
Total Bank Lines	**5345.05**	**5345.05**	
Commercial Paper	1200.00	0.00	[ICRA]A1+; Reaffirmed and withdrawn
Non-Convertible Debentures (NCD)	887.00	887.00	[ICRA]AA (Stable); Outstanding

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the short-term rating for Rs. 1,200.00-crore commercial paper (CP) of Dalmia Cement (Bharat) Limited (DCBL) as there is no amount outstanding against the rated instruments. The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

While assigning the ratings, ICRA has considered the consolidated financials of Dalmia Bharat Limited (DBL), including DCBL, given their common management and financial linkages, collectively referred as Dalmia/the Group. DCBL, at the consolidated level, accounts for more than 99% of operating income (OI) and total debt levels along with around 88% of tangible net worth (TNW) of DBL's consolidated financial statements as on March 31, 2020.

The ratings on various other instruments/bank facilities of DCBL continue to be supported by the cash-accretive and operationally efficient cement operations of Dalmia as reflected by healthy operating margins of 21.8% and 30.1% in FY2020 and H1 FY2021, respectively. Moreover, operational efficiencies coupled with lower net debt levels have resulted in comfortable net debt gearing at 0.21x as on March 31, 2020 and interest coverage ratio of 4.81x in FY2020. Further, healthy demand of cement and in turn, strong revenues for the Group are expected over the medium term owing to revival in housing and infrastructure sector. The ratings are also supported by the strong market position of Dalmia and its brand in its key markets of southern, eastern and north-eastern India. The management's strategy of adding new markets and geographically diversify cement capacities would act as a buffer against regional supply-demand imbalances over the long term.

The management's intent of improving geographic diversity is evident from Dalmia's recent acquisition of Murli Industries Limited (Murli) for Rs. 410 crore. This acquisition resulted in addition of an integrated plant with capacity of 3 million tonnes per annum (MTPA) at Maharashtra, establishing Dalmia's manufacturing presence there. The Group is in the process of reviving the same over next 9–12 months with expected capital outlay of Rs. 400 crore over next 12–14 months.

Despite the ongoing investments owing to Murli acquisition, capacity expansion in the eastern region and other improvement projects, ICRA's ratings take comfort from the significant cash and liquid funds available with the Group of Rs. 2,849 crore as on September 30, 2020, which can cover more than two years of debt servicing obligations. However, integration and stabilisation of new capacities will be a key rating driver for the company.

The ratings continue to be constrained by exposure of Dalmia's operations to the cyclicality in the cement industry and fluctuation in input prices, primarily pet coke, coal and diesel prices based on the power, fuel and logistics mix adopted by the Group. In H1 FY2021, the cement demand was adversely impacted by slowdown in the urban housing and infrastructure segment due to labour availability challenges, lower execution and lower Government spend (owing to pressure on State Government finances) as a fallout of Covid-19 pandemic. The same is reflected in the decline in the sales volumes by 6% on year-on-year (YoY) basis in H1 FY2021 at 8.5 MMT. Also, given the high capital employed on account of multiple restructurings over the years along with the resultant amortisation expense, Dalmia continues to report weak return on capital employed; improvement in the same will be a key rating driver.

The Stable outlook on the rating reflects ICRA belief that the Group will be able to generate healthy cash accruals from the business as well as maintain a healthy liquidity position.

Key rating drivers and their description

Credit strengths

Strong market position in key markets of southern, eastern and north-eastern India – Dalmia has a strong market presence in each of its markets with ~7.5% capacity share in the southern region, ~15.5% in the eastern region and ~22% in the north-eastern region in FY2020. Through unified branding and marketing across various units, the footprint of the Dalmia brand has expanded significantly. In addition, the Group has recently acquired the 3-MTPA cement plant of Murli (revenues expected from FY2022), which will establish its presence in the western market. Also, the Group is currently setting up new cement capacity in the eastern market, which is expected to further solidify its position in those markets.

Benefits from economies of scale and geographical diversification in long run – With a capacity of 26.5 MTPA and increasing capacity utilisation (72% in FY2020 against 64% in FY2018), the benefits of operating leverage have supported profitability. Since the capacities are geographically diversified (45.7% in the southern region, 39% in the eastern region and 15.1% in the north-eastern region), the company remains relatively insulated from regional demand–supply dynamics.

Healthy margins and accruals aid in robust coverage metrics; likely to remain healthy in FY2021 – Healthy operational efficiencies of the Group resulted in strong operating margins of 21.8% in FY2020 (20.5% in FY2019) and accruals of Rs. 1,657 crore in FY2020 (Rs. 1,602 crore in FY2019). Additionally, the management's initiatives to continually improve its operating efficiencies through increased cement-to-clinker ratio (lower clinker consumption), introduction of products, reduction of power consumption, digitisation of sales channel and efficient management of target regions among the Group companies driving logistics efficiencies have supported steady improvement in operating margin. Further, in H1 FY2021, Dalmia reported significantly higher operating margin at 30.1% (23.9% in H1 FY2021), largely supported by favourable input costs, power cost along with lower other expenses. Even as the tailwinds from favourable raw material and fuel costs moderate in H2 FY2021, healthy demand prospects emanating from steady demand from end-user housing and infrastructure activity and resultant benefits of operating leverage augur well for revenues and profit growth in the near term.

Despite the ongoing investments towards both organic capacity expansion and some improvement projects, besides inorganic opportunities, the Group's net debt numbers have consistently been improving over the past few years. The net gearing and net debt/OPBIDTA of the Group stood at 0.33x and 1.63x, respectively as on March 31, 2020 with interest coverage ratio at 4.81x in FY2020. Notwithstanding the ongoing capex of around 40% of existing capacity, which is largely funded internal accruals, the sustenance of healthy operating margins is likely to result in strong debt coverage metrics going forward.

Credit challenges

Vulnerability to cyclical trends – The company is exposed to cyclical trends in supply and demand in the cement industry, which are influenced by cyclical economic trends and capacity additions by players during such periods. The cement demand in H1 FY2021 was adversely impacted owing to the slowdown in the urban housing and infrastructure segment due to labour availability challenges, lower execution and lower Government spend (owing to pressure on state government finances). The same is reflected in the decline in the sales volumes by 6% YoY in H1 FY2021 to 8.5 MMT. With the building of brand, reducing per tonne fixed costs on account of vintage and improving scale of operations, the ability of the company to absorb the resultant impact of subdued demand/excess supply have improved.

Weak 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 has resulted in subdued return on capital employed for the company. Notwithstanding the improved operating margins, the ongoing capex as well as need for continued investments for growth are expected to keep return metrics subdued in the near term.

Vulnerability of profitability to fluctuations in input prices – The operating margins remain susceptible to fluctuations in input prices, primarily pet coke, coal and diesel prices based on the power, fuel and logistics mix adopted by the Group. While pet coke prices have recently increased, imported coal prices have substantially declined as on date in the current year. However, high diesel price is likely to offset the improvement in input cost to an extent.

Liquidity position: Strong

The liquidity of Dalmia remains **strong**, as indicated from presence of significant liquid funds of around Rs. 2,849 crore as of September 30, 2020 coupled with steady accruals which provide cushion for the annual debt servicing obligations as well as cater to both organic and inorganic growth opportunities. Further, ICRA expects the Group to have healthy cash flows from operations of over Rs. 1,700 crore over medium term.

Rating sensitivities

Positive triggers –ICRA may upgrade DCBL’s rating if the Group achieves increased geographical footprint through stabilisation and integration of its new and acquired capacities, or if there is substantial improvement in return on capital employed.

Negative triggers – Negative pressure on DCBL’s rating may arise on account of significant debt-funded capex or acquisition of sizeable capacity or adverse development with respect to ongoing litigation on mutual fund units.

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 the same; the rating is therefore based on the consolidated financials of parent company of the Group, Dalmia Bharat Limited

About the company

Dalmia Cement (Bharat) Limited [erstwhile Avnija Properties Limited (APL)], incorporated in 1996 is a cement player with an installed capacity of 26.5 MTPA. In addition to cement, the company has refractory capacity[1] of 1.4 lakh tonnes across two manufacturing units located in Rajgangpur, Odisha and Dashiqiao, China (under step-down subsidiary).

In FY2020, Dalmia reported a net profit of Rs. 238 crore on an OI of Rs. 9,674 crore compared to a net profit of Rs. 349 crore on an OI of Rs. 9,484 crore in the previous year.

Key financial indicators of Dalmia Cement (Bharat) Limited (audited) (Standalone)

	FY2019	FY2020
Operating Income (Rs. crore)	8,312	8,349
PAT (Rs. crore)	81	97
OPBDIT/OI (%)	18.4%	21.3%
PAT/OI (%)	1.0%	1.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0
Total Debt/OPBDIT (times)	3.7	3.4
Interest Coverage (times)	3.1	4.4

Key financial indicators of Dalmia Bharat Limited (audited) (Consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	9,484	9,674
PAT (Rs. crore)	349	238
OPBDIT/OI (%)	20.5%	21.8%
PAT/OI(%)	3.7%	2.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	3.0	2.9
Interest Coverage (times)	3.5	4.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] Scheme for demerger of refractory business into another promoter company applied for

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019				FY2018	
					December 14, 2020	March 09, 2020	March 08, 2019	February 22, 2019	December 06, 2018	April 06, 2018	February 19, 2018	April 13, 2017
1	Fund-based - Term Loans	Long Term	2569.90	NA^	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund-based - Working Capital facilities	Long Term	989.40	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-Fund Based – working Capital Facilities	Short Term	1785.75	-	**[ICRA]A1+**	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	0.00		**[ICRA]A1+, withdrawn**	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	NCD	Long Term	887.00	602.0*	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

^Total term loans outstanding as on October 31, 2020 was Rs 3,237 crore, break-up of outstanding against rated term loans as on October 31, 2020 is not available
**as on October 31, 2020*
Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	-	-	-	989.40	[ICRA]AA (Stable)
NA	Non fund based facilities	-	-	-	1785.75	[ICRA]A1+
NA	Commercial Paper	-	5.5-6.5%	70-90 days	0.00	[ICRA]A1+, withdrawn
NA	Term Loan 1	March 30, 2015	-	March 30, 2030	387.45	[ICRA]AA (Stable)
NA	Term Loan 2	NA	-	FY2030	98.25	[ICRA]AA (Stable)
NA	Term Loan 3	March 2, 2017	-	December 31, 2032	465.56	[ICRA]AA (Stable)
NA	Term Loan 4	June 7, 2013	-	May 2, 2022	31.76	[ICRA]AA (Stable)
NA	Term Loan 5	NA	-	FY2030/FY2031	466.00	[ICRA]AA (Stable)
NA	Term Loan 6	April 8, 2017	-	May 2020	421.93	[ICRA]AA (Stable)
NA	Term Loan 7	NA	-	FY2021	66.73	[ICRA]AA (Stable)
NA	Term Loan 8	July 2017	-	March 31, 2023	121.28	[ICRA]AA (Stable)
NA	Term Loan 9	NA	-	NA	100.00	[ICRA]AA (Stable)
NA	Term Loan 10	June 2013	-	December 2022	106.76	[ICRA]AA (Stable)
NA	Term Loan - Un-Allocated	-	-	-	304.18	[ICRA]AA (Stable)
INE755K07231	NCD	October 19, 2016	8.65%	October 19, 2020	85.0	[ICRA]AA (Stable)
INE755K07249	NCD	October 19, 2016	8.70%	October 19, 2021	20.0	[ICRA]AA (Stable)
INE755K07207	NCD	January 8, 2016	9.91%	January 8, 2021	182.0	[ICRA]AA (Stable)
INE290B07071	NCD	March 2017	9.90%	March 2020	200.0	[ICRA]AA (Stable)
INE290B07089	NCD	March 2017	9.90%	March 2021	200.0	[ICRA]AA (Stable)
INE290B07063	NCD	March 2017	9.90%	March 2022	200.0	[ICRA]AA (Stable)

NA: Not available

Source: Dalmia Cement (Bharat) Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dalmia Bharat Limited (DBL, Holding company of Dalmia Bharat Group)	-	Full Consolidation
Dalmia Cement (Bharat) Limited (subsidiary of DBL)	100%	Full Consolidation
Dalmia Power Limited (subsidiary of DBL)	100%	Full Consolidation
Subsidiaries 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
Dalmia Bharat Refractories Limited (formerly known as Sri Dhandauthapani Mines & Minerals Limited)(DBRL)	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
Hopco Industries Limited	100%	Full Consolidation
Dalmia OCL Limited (subsidiary of DBRL) (w.e.f. 7th Oct. 2019)	100%	Full Consolidation
Joint Venture		
Khappa Coal Company Private Limited	36.73%	Equity Method
Radhikapur (West) Coal Mining Private Limited	14.70%	Equity Method

Analyst Contacts

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Anupama Arora
+91-124-4545303
anupama@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Suksham Arora
+91 124 4545 300
suksham.arora@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6169 3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999