March 9, 2020 Revised

Dalmia Cement (Bharat) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	2796.50	2569.90	[ICRA]AA (Stable); reaffirmed
Fund-based Limits	1000.00	989.40	[ICRA]AA (Stable); reaffirmed
Non-fund Based Limits	1548.55	1785.75	[ICRA]A1+; reaffirmed
Total Bank Lines	**5345.05**	**5345.05**	
Commercial Paper	1200.00	1200.00	[ICRA]A1+; reaffirmed
NCD	1002.00	887.00	[ICRA]AA (Stable); reaffirmed
Term Loan	444.21	444.21	[ICRA]AA (Stable) – withdrawn
NCD	585.00	585.00	[ICRA]AA (Stable) – withdrawn

**Instrument details are provided in Annexure-1*

ICRA has withdrawn long-term rating of [ICRA]AA (pronounced ICRA double A) Stable assigned to the Rs. 585.00-crore non convertible debentures (NCDs) and Rs. 444.21 crore Term loans of Dalmia Cement Bharat Limited (DCBL). The ratings have been withdrawn at the request of the company. DCBL has also confirmed that there is no amount outstanding against the rated instruments.

Rationale

The rating reaffirmation takes 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 to an extent.

Debt-funded capacity expansions and acquisitions undertaken by the company have resulted in the moderation of its capitalisation and coverage indicators at the Group level. However, ICRA notes that the debt levels of the company have come down significantly since the peak debt level of Rs. 8,756.7 crore as on March 31, 2016 to Rs. 5,392.0 crore as on December 31, 2019 despite the almost Rs. 1,500-crore capital expenditure incurred for capacity expansion in the eastern region over FY2019 and 9M FY2020. 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. Integration and stabilisation of new capacities – both organic (east expansion) and inorganic (Murli Industries 3.0-MTPA capacity are expected to be acquired in March 2020) – will be a key rating driver for the company.

DCBL's operations are exposed to the cyclicality in the cement industry, albeit mitigated by geographically distributed capacities. Given the high net worth, the company continues to report weak return on capital employed, improvement in the same will be a key rating driver.

Key rating drivers and their description

Credit strengths

Strong market position in key markets of southern, eastern and north-eastern India – The Group had a strong market presence in each of its markets with ~7.5% capacity share in the southern region, ~13% in the eastern region and ~22% in the north-eastern region in FY2019. 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 (the cement division of DCBL was established in 1939). Through focussed efforts, the installed capacity of the Group increased to 26.5 million tonne (mnT) in FY2019 from 1.2 mnT in FY2006 through both organic and inorganic routes. The company also achieved geographic diversification.

Benefits from economies of scale and geographical diversification in long run – With a capacity of 26.5 MTPA and increasing capacity utilisation (74% in FY2019 against 64% in FY2018), the company is benefiting from lower fixed cost per tonne. 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 will be relatively insulated from regional demand fluctuations.

Cost-reduction initiatives likely to support medium-term profitability – 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 the Group companies driving logistics efficiencies.

Strong cash generation resulting in improving capital structure despite ongoing capex – Despite the ongoing capital expenditure in the eastern region, where the company is setting up a clinker unit of 3.1 MTPA and split grinding units of 7.8 MTPA, and the acquisition of Kalyanpur Cement and Murli Industries (to be acquired shortly), the company's gross debt and net debt numbers have come down significantly from the peak of March 31, 2016. This is on account of the strong cash generation from the cement business.

Significant cash and liquid balances – The cash and liquid balances of the Group stood at Rs. 2,434 crore[1] against a total debt of Rs. 5,392 crore as on December 31, 2019. Thus, the net debt of the Group stood at Rs. 3,496 crore. The 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 two years, these cash balances will provide adequate buffer against price decline and cost increases, which may weaken the cash accruals.

Credit challenges

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.

Weak return on capital – Increase in capital employed on account of multiple restructurings over the years and the resultant amortisation expenses (from the latest round of restructuring) has resulted in subdued return on capital

[1] Includes investment in Indian Energy Exchange and misappropriated Mutual Fund units

employed for the company, which is a source of concern. Going forward, improvement in the same will be a key rating driver.

Liquidity position: Strong

DCBL's liquidity is **strong**, backed by the presence of significant cash and liquid funds of Rs. 2,434 crore as on December 31, 2019 and largely unutilised working capital limits of Rs. 649 crore (although the company regularly issues unsecured commercial paper outside these limits ranging from Rs. 500-650 crore in 9M FY2020). The company is expected to generate adequate cash flows for debt servicing and still have surplus cash from operations. It has tied-up debt of Rs. 2,000 crore for its ongoing capital expenditure of Rs. 2,840 crore.

Rating sensitivities

Positive triggers: ICRA may upgrade DCBL's rating if the company achieves increased geogrphical footprint through stabilisation and integration of its new and acquired capacities, or if there is improvement in return on capital employed.

Negative triggers: Negative pressure on DCBL's rating may arise on account of prolonged demand slowdown that impacts the volumes and prices, resulting in significant reduction in cash generation. The rating may also be revised downwards in case 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 (erstwhile 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[2] of 1.4 lakh tonnes across two manufacturing units located in Rajgangpur, Odisha and Dashiqiao, China (under step-down subsidiary).

In FY2019, the company reported a net profit of Rs. 81 crore on an operating income (OI) of Rs. 8,312.0 crore compared to a net profit of Rs. 230.0 crore on an OI of Rs. 7,645.0 crore in the previous year.

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

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

	FY2018	FY2019
Operating Income (Rs. crore)	7,645.0	8,312.0
PAT (Rs. crore)	230.0	81.0
OPBDIT/OI (%)	24.2%	18.4%
RoCE (%)	5.7%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0
Total Debt/OPBDITA (times)	3.6	3.7
Interest Coverage (times)	2.8	3.1
DSCR (excl Short Term debt/ Prepayments)	1.8	1.4

Key financial indicators of Dalmia Bharat Limited (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	8,580.0	9,484.0
PAT (Rs. crore)	291.0	349.0
OPBDIT/OI (%)	23.7%	20.5%
RoCE (%)	5.8%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9
Total Debt/OPBDITA (times)	3.6	3.0
Interest Coverage (times)	2.9	3.5
DSCR	1.8	1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years									
		Type	Amount Rated	Amount Outstanding	Rating	FY2019				FY2018		FY2017			
					9-Mar-2020	08 March 2019	22 February 2019	06 December 2018	06 April 2018	19 February 2018	13 April 2017	12 December 2016	21 October 2016	12 September 2016	26 July 2016
1	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)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
2	Fund based 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)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
3	Non Fund Based Facilities	Short Term	1785.75	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	1200.00	525.00*	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	NCD	Long Term	887.00	887.0*	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
6	Fixed Deposit	Medium Term	-	-	-	-	-	-	-	-	-	-	-	MAA (Stable)	MAA- (Positive)
7	Term Loans	Long Term	444.21	-	**[ICRA]AA (Stable) - withdrawn**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)
8	NCD	Long Term	585.0	-	**[ICRA]AA (Stable) - withdrawn**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)

^Total term loans outstanding as on December 31, 2019 was Rs 2353.0 crore, break-up of outstanding against rated term loans as on December 31, 2019 is not available
**as on January 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 click here

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	1200.00	[ICRA]A1+
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)
INE755K07199	NCD	January 8, 2016	9.91%	January 8, 2020	198.0	[ICRA]AA (Stable) - withdrawn
INE755K07181	NCD	January 8, 2016	9.91%	January 8, 2019	210.0	[ICRA]AA (Stable) - withdrawn
INE755K07124	NCD	August 28, 2014	10.75%	August 7, 2019	40.0	[ICRA]AA (Stable) - withdrawn
INE755K07157	NCD	August 28, 2014	10.75%	August 7, 2019	30.0	[ICRA]AA (Stable) - withdrawn
INE755K07025	NCD	January 7, 2013	10.75%	January 6, 2020	67.0	[ICRA]AA (Stable) - withdrawn
INE755K07223	NCD	October 19, 2016	8.65%	October 19, 2019	40.0	[ICRA]AA (Stable) - withdrawn
NA	Term Loan 11	NA	-	FY2030	251.21	[ICRA]AA (Stable) - withdrawn
NA	Term Loan 12	February 22, 2017	-	December 31, 2031	193.0	[ICRA]AA (Stable) - withdrawn

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
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
Hopco Industries Limited	100%	Full Consolidation
Joint Venture		
Khappa Coal Company Private Limited	36.73%	Equity Method
Radhikapur (West) Coal Mining Private Limited	14.70%	Equity Method

Corrigendum

Document dated March 9, 2020 has been corrected with revisions as detailed below:

The following sentence has been added below Summary of rating action table on page 1 , "ICRA has withdrawn long-term rating of [ICRA]AA (pronounced ICRA double A) Stable assigned to the Rs. 585.00-crore non convertible debentures (NCDs) and Rs. 444.21 crore Term loans of Dalmia Cement Bharat Limited (DCBL). The ratings have been withdrawn at the request of the company. DCBL has also confirmed that there is no amount outstanding against the rated instruments."

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