March 26, 2020

Dalmia Laminators Ltd.: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	85.0	85.0	[ICRA]BBB-/Stable reaffirmed
Fund Based – Term Loan	46.0	100.0	[ICRA]BBB-/Stable reaffirmed
Non fund based	37.0	37.0	[ICRA]A3 reaffirmed
Total	**168.0**	**222.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has considered the consolidated profile of Dalmia Laminators Ltd. (DLL), Dalmia Tea Plantation and Industries Limited (DTPIL) and Bateli Tea Company Limited (BTCL) while reaffirming the ratings. The ratings consider the experience of the promoters and established position of the MLD Group in the plastic woven sacks (PWS) and the bulk tea industry in India. DLL has a proven track record of supplying to some of the largest players in the cement, fertiliser and petrochemical industries. It is one of the largest players in the PWS industry with an installed capacity of ~ 25,000 MTPA (to be expanded to 30,000 MTPA shortly) having its plants in Tamil Nadu and Andhra Pradesh, in proximity to key customers. While reaffirming the ratings, ICRA has considered the steady increase in DLL's production volumes, at remunerative rates, in the current year and diversification of its customer base with a new order from the Mangalore Refinery and Petrochemicals Limited (MRPL), which is expected to sustain growth in business and cash flows, going forward. The performance of the tea businesses of the Group, under DTPIL and BTCL, has also improved in the current year, driven by higher volumes at remunerative rates. Both the 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. Aggregate production of tea, across both the companies, in FY2020 is estimated to increase by ~1.4 million kg, driven by the increase in bought leaf operations. While increasing proportion of production from bought leaf would have an impact on the average realisation of teas, softening in green leaf costs is likely to ensure improvement in operating profits from the tea business of the MLD Group. The ratings, however, are constrained by the fragmented nature of the PWS industry, which result in significant competition, thus keeping the operating profitability of players under pressure. Besides, the working capital-intensive nature of operations keeps business return indicators subdued. While the prices of polypropylene granules, the primary raw material, remain volatile, the presence of price variation pass-on clause in most contracts mitigates risks of such volatility. In addition, the ratings also factor in the risks associated with the tea business, with tea being an agricultural commodity. Besides, cyclicality 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 a gearing of 1.7 times (including unsecured loans), interest cover of 2.1 times and total debt to OPBDITA of 5.7 times in FY2019. While the same is expected to improve in the current year with a gearing of ~1.3 times and Total Debt to OBITDA of 4.9 times (estimated), it will still remain suppressed on an absolute basis. Going forward, while cash accruals are expected to remain adequate to meet debt obligations, the sizeable nature of repayments, going forward, would limit the extent of improvement in coverage indicators from the current levels. Nonetheless, steady cash accruals from the business, proceeds from monetisation of wind power assets as well as the ballooning nature of the recently refinanced debt at DLL are likely to support the liquidity of the Group over the medium term.

The Stable outlook is underpinned by expectations that cash flows from the PWS business would remain steady given the healthy volumes and the presence of a raw material price pass-on clause. Also, the higher proportion of bought-leaf operations would result in stable margins for the tea business as well.

Key rating drivers and their description

Credit strengths

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

Diversified business profile of the Group – The MLD Group has a diversified presence in the PWS and the bulk tea industries. DLL is one of the largest players in the PWS industry with an installed capacity of ~ 25,000 MTPA (to be expanded to 30,000 MTPA shortly) having its plants in Tamil Nadu and Andhra Pradesh, in proximity to key customers. Its customers include some of the largest players in the cement, fertiliser and petrochemical industries. Its other two Group companies, DTPIL and BTCL, are involved in production and processing of tea having their own estates in West Bengal and Assam, respectively. The combined production capacity of the two companies stood at ~14 million kg of made tea in FY2019, entirely of the CTC variety.

Group profitability margins remain steady – The Group's profitability 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 remains volatile, the presence of price variation pass-on clause in most contracts mitigates risks of such volatility while keeping the margins steady at ~10-12%. Additionally, with almost 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 leaf move in tandem with that of black tea.

Group's established business relationship with reputed companies - DLL gets a major portion of its revenue from the cement industry, followed by the fertiliser and petrochemicals industry. The share of business from cement companies has reduced over the past few years, while that from fertiliser and petrochemical companies has increased, thus lowering the industry concentration risks. Given the recent receipt of a large order from MRPL, which is expected to be executed from April 2020, the share of business from the cement industry is likely to reduce further. Moreover, client concentration risks of DLL are mitigated by the large and established position of the companies in their respective industries. On the other hand, tea is sold via a mix of private and auction sales to a diverse customer base.

Credit challenges

Moderate capital structure and debt coverage indicators of the Group- The capital structure and debt coverage indicators of the Group remained moderate with a gearing of 1.7 times (including unsecured loans from promoters) and an interest cover of 2.1 times (including interest on loans from promoters) in FY2019. High working capital requirements along with capital expenditure related to refurbishment and modernisation resulted in an increase in debt on the books of the Group. The Total debt to OPBDITA stood at around 5.7 times as of end-FY2019. With a substantial debt repayment due in the near term, the coverage indicators are expected to improve, however, it will remain moderate in absolute terms, going forward.

Limited scope for margin expansion – The PP sack manufacturing industry is fragmented with more than 200 players. High proportion of small-scale units operating in this industry result in a fragmented nature of the industry, leading to intense competition among the players. The basic raw material for DLL is PP granules, 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, posing a risk of supplier concentration and low bargaining power. The limited credit period on procurement along with sizeable receivables and / or inventory put pressure on the working capital profile of the company. This along with a range-bound profitability kept the overall business returns subdued, with an overall RoCE at 9.0% in FY2019. 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, thereby limiting the scope for any significant margin expansion in tea also.

Risks associated with tea for being an agricultural commodity – Tea production depends on agro-climatic conditions, which subject it to agro-climatic risks. Additionally, the inherent cyclicality 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 and a substantial inflow of cash from the sale of wind power assets and the recent debt refinancing arrangement at DLL are likely to keep the overall cash flows comfortable relative to the debt service obligation. The Group's liquidity is also supported by access to funds at competitive rates under the Priority Sector Lending.

Rating sensitivities

Positive Triggers – A substantial increase in profitability and improvement in gearing and debt coverage indicators with TD/OBITDA of less than 3 times and interest cover of more than 3 times on a sustained basis for the aggregated financials of the Group will be the factors for ratings upgrade.

Negative Triggers – Any large debt-funded capex resulting in a deterioration in capital structure of the company and/or the Group and a decline in profitability and/or any sizeable increase in debt repayment obligation, leading to a deterioration in debt coverage indicators, could also be triggers for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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 Limited (DTPIL) and Bateli Tea Company Limited (BTCL), given the common management of the three companies.

About the company

Established in 1972, Dalmia Laminators Limited 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, food grains and sugar, chemicals and other commodities. It has manufacturing operations in Tamil Nadu and Andhra Pradesh. Group companies, DTPIL and BTCL, are involved in plantation and processing of tea in West Bengal and Assam, respectively. The combined production capacities of the two companies stood at ~ 14 million kg of made tea in FY2019, entirely of the CTC variety. With almost 85% of the production from purchased green leaves, the operating profitability of the tea operations has remained steady over the last few years.

In FY2019, the company reported a net profit of Rs. 6.8 crore on an operating income of Rs. 292.3 crore, as compared to a net profit of Rs. 3.6 crore on an operating income of Rs. 225.8 crore in the previous year.

Key financial indicators (Standalone - Audited)

	FY2018	FY2019	9M FY2020 (unaudited)
Operating Income (Rs. crore)	225.8	292.3	204.1
PAT (Rs. crore)	3.6	6.8	5.9
OPBDIT/OI (%)	12.5%	11.1%	10.8%
RoCE (%)	7.7%	9.5%	15.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.9	
Total Debt/OPBDIT (times)	6.9	5.3	
Interest Coverage (times)	1.9	1.7	1.5
DSCR	1.0	1.1	

Key financial indicators (Aggregated for the Group)

	FY2018	FY2019
Operating Income (Rs. crore)	401.5	428.2
PAT (Rs. crore)	17.7	15.2
OPBDIT/OI (%)	15.4%	14.2%
RoCE (%)	9.2%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.9
Total Debt/OPBDIT (times)	5.7	5.7
Interest Coverage (times)	2.45	2.11
DSCR	1.2	1.1

 # Financials have been aggregated for the three group companies

**TNW has been adjusted for crossholding among the group companies*

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
					26-March-2020	9-April-2019		
1	Fund Based – Cash Credit	Long term	85.00		**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**		
2	Fund Based – Term Loan	Long term	100.00	100.00	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**		
3	Non-fund based	Short term	37.00		**[ICRA]A3**	**[ICRA]A3**		

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

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund Based – Cash Credit	-	-	-	85.0	[ICRA]BBB-(Stable)
	Fund Based – Term Loan	FY20	9.85%	FY28	100.0	[ICRA]BBB-(Stable)
	Non-fund based		-	--	37.0	[ICRA]A3

Source: Dalmia Laminators Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dalmia Tea Plantations and Industries Limited		Aggregated
Bateli Tea Company Limited		Aggregated

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About ICRA Limited:

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