

Ratings

CRISIL

An S&P Global Company

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Rating Rationale

January 07, 2021 | Mumbai

Dalmia Bharat Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.100 Crore
Long Term Rating	CRISIL AA+/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.300 Crore Commercial Paper	CRISIL A1+ (Reaffirmed; Enhanced from Rs.200 Crore)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper programme of Dalmia Bharat Ltd (DBL; part of the DBL group). The DBL group includes DBL (holding company of the group), Dalmia Cement (Bharat) Ltd (DCBL; operating company of the group with entire cement business housed under it; rated 'CRISIL AA+/Stable/CRISIL A1+') and its subsidiaries, and Dalmia Power Ltd (DPL; non-operational company holding the group's investment in Indian Energy Exchange Ltd [IEX])

The ratings continue to reflect the group's strong financial flexibility arising from DBL's 100% ownership of its subsidiaries, DCBL and DPL. The ratings also factor in the expectation of timely infusion of funds by DCBL and DPL for meeting DBL's debt obligation, considering the common management and treasury operations across group entities.

The ratings consider the healthy business risk profile of the DBL group, backed by its established and diversified market position across south, east and north-east India, and cost-efficient operations. The ratings also take into account the healthy financial risk profile of the group, as indicated by modest leverage and strong liquidity. These strengths are partially offset by low return on capital employed (RoCE) and susceptibility to risks relating to volatility in input cost and realisations and to cyclicity in the cement industry.

Analytical Approach

CRISIL has combined the business and financial risk profiles of DBL, DCBL and its subsidiaries, and DPL, as all the entities, collectively referred to as the DBL group, are under a common management and have strong business and financial linkages.

Please refer Annexure: List of entities consolidated, for details of the entities considered and their analytical treatment for consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Strong financial flexibility and financial risk profile**

The DBL group has strong financial flexibility arising from its 100% owned subsidiaries - DCBL and DPL. CRISIL expects timely infusion of funds by its subsidiaries, for meeting any debt obligation, considering the common management and treasury operations across group entities. The group intends to use proceeds from the issuance of commercial paper to retire some of its existing high-cost debt.

The group's financial risk profile has improved significantly over the past five fiscals. Gearing improved to 0.5 time as on September 30, 2020, from 3.6 times as on March 31, 2016, and the ratio of net debt to earnings before interest, tax, depreciation and amortisation (Ebitda) to nearly 1 time from 3.9 times, led by strong operating performance. Interest coverage ratio improved from 2.5 times in fiscal 2016 to 5.2 times in fiscal 2020 and net cash accrual to adjusted debt (NCAAD) ratio from 10% to 28%. A large portion of the ongoing capital expenditure (capex) of around Rs 4,000 crore (Rs 1,850 crore spent in fiscal 2020), over fiscals 2021 and 2022, will be funded mainly through internal accrual. This, coupled with healthy cash accrual, will lead to further improvement in the financial risk profile, with NCAAD and adjusted interest coverage ratios expected to improve to 38% and 6.5 times, respectively, by fiscal 2022.

- Healthy market position**

With a track record of seven decades, the DBL group is the fourth largest cement player, by capacity, in India with operational capacity of 26.5 million tonne per annum (mtpa) as on March 31, 2020. It has diversified its presence over the

past decade with capacities now in the south (46% of total capacity in Tamil Nadu, Andhra Pradesh and Karnataka); the east (39% in Odisha, West Bengal, Jharkhand and Bihar); and north-east (15% in Assam and Meghalaya). It has outperformed the market, with revenue growing faster than overall cement demand over the past eight years, resulting in market share gains across its key markets.

It is setting up a 7.8 MTPA cement capacity in the eastern market (5.3 mtpa brownfield, 2.5 mtpa greenfield), which should consolidate its position there as the eastern region has healthy demand outlook over the medium term. The group also plans to expand its presence in the western market through the acquisition of a 3-mtpa cement plant of Murlu Industries Ltd (Murlu), and expects revenue generation from the plant from fiscal 2022 onwards.

- **Robust operating profitability, led by cost efficiency**

The DBL group has seen strong operating performance over the past five fiscals, with Ebitda per tonne consistently above Rs 1,000. This is because of improvement in capacity utilisation to 73% in fiscal 2020 from 51% in fiscal 2016, stable realisations led by strong brand position and focus on premium segments, and stable operating cost led by measures boosting overall cost efficiency.

Some of the measures taken in recent years to improve efficiency are: a) increase in the share of blended cement in the overall mix, resulting in reduced consumption of energy and raw material per tonne of cement; b) lower lead distances with most of the cement units strategically located close to raw material sources and major cement markets; and c) switch to multi-fuel kilns that has helped optimise overall fuel cost. These efficiencies, coupled with lower fuel and input prices, resulted in Ebitda per tonne rising to Rs 1,551 in the first half of fiscal 2021 from Rs 1,239 in the first half of fiscal 2020, despite lower volumes. Furthermore, with expected improvement in demand and stable realisations, Ebitda per tonne is expected to remain stable at more than Rs 1,100 in fiscals 2022 and 2023.

- **Strong presence in the eastern market to partially offset loss in volume on account of the lockdown imposed to contain the Covid-19 pandemic**

The group derives around 50% volume from the east and north-east markets. These markets are expected to witness lower volume decline of 9-11% compared to the pan-India market decline of 12-14% in fiscal 2021, led by rural demand. Furthermore, the region is expected to see healthy growth of 14-16% in fiscal 2022, resulting in sufficient absorption of the group's new capacity.

Weakness:

- **Moderate return on capital**

The group has undergone a few restructurings in the past, resulting in recognition of intangibles. This has led to a significant increase in capital employed and a resultant rise in the amortisation expense, which has led to a subdued return on capital. With the completion of the ongoing capex, CRISIL expects return on capital to improve, driven by optimum utilisation of assets and stable profitability. Any marked deviation on account of lower profitability and higher-than-expected, debt-funded capex or acquisition will remain a key monitorable.

- **Susceptibility to risks relating to volatility in input cost and realisations, and cyclicity in the cement industry:**

Capacity addition in the cement industry tends to be sporadic because of the long gestation period for setting up a facility and the large number of players adding capacity during the peak of a cycle. This has led to unfavourable price cycles for the sector. Moreover, profitability remains susceptible to volatility in input prices, including raw material, power, fuel and freight. Increase in pet coke prices in fiscal 2019 had impacted profitability of several cement players. Realisations and profitability are also affected by demand, supply, offtake and regional factors.

Liquidity: Strong

Financial flexibility remains strong, with cash balance and liquid investments of Rs 2,859 crore (adjusted for misappropriated mutual fund units) as on September 30, 2020. Expected net cash accrual of over Rs 1,600 crore per annum and surplus liquidity should suffice to cover debt obligation over the medium term.

Outlook Stable

CRISIL believes the DBL group will continue to benefit from its healthy market position, robust operating efficiency and strong liquidity.

Rating Sensitivity Factors

Upward Factors

- Healthy ramp-up of ongoing capex, while maintaining the profitability level, resulting in marked improvement in return on capital
- Stable profitability and declining debt levels, resulting in marked improvement in the interest coverage ratio to beyond 7-8 times on a sustained basis

Downward Factors

- Delayed recovery in demand
- Any substantial, debt-funded capex or acquisition or decline in profitability, weakening the interest coverage ratio to below 5 times on a sustained basis

About the Group

DBL is the listed holding company of the cement business of the Dalmia Bharat group. It owns 100% of DCBL which is the main operating company and houses the group's entire cement business. DBL also owns 100% in DPL (a non-operational company) which holds the group's investment in IEX Ltd. At a standalone level, it derives revenue from providing management services to group companies. DBL did not have any external debt as on March 31, 2020.

DCBL is the fourth largest cement manufacturer in the country, with an installed capacity of 26.5 mtpa. The company has presence across southern (capacity of 12.1 mtpa), eastern (10.4 mtpa) and north-eastern (4 mtpa) India. This is supported by captive thermal power plants of 178 megawatt (MW), captive solar power plants of 8 MW and a waste heat recovery system (WHRS) plant of 9.2 MW.

DPL is a non-operational company. Its assets mainly include the group's investment in equity shares of IEX Ltd (listed entity).

All the group entities have common management and treasury operations

Key financials of Dalmia Bharat Ltd (Standalone; CRISIL-adjusted numbers):

As on/for the period ended March 31	Unit	2020	2019
Revenue	Rs crore	151	164
Profit After Tax (PAT)	Rs crore	135	101
PAT Margin	%	88.2	61.6
Adjusted debt/adjusted networkth	Times	--	--
Interest coverage	Times	47.3	65.5

Key financials of Dalmia Bharat Ltd (consolidated; CRISIL-adjusted numbers):

As on / for the period ended March 31	Unit	2020	2019
Revenue	Rs crore	9,675	9,484
PAT	Rs crore	237	349
PAT margin	%	2.4	3.7
Adjusted debt/adjusted networkth	Times	0.9	0.96
Interest coverage	Times	5.2	4.2

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Commercial paper	NA	NA	NA	300	Simple	CRISIL A1+
NA	Proposed term loan	NA	NA	NA	50	NA	CRISIL AA+/Stable
NA	Proposed short-term bank loan facility	NA	NA	NA	20	NA	CRISIL A1+
NA	Overdraft	NA	NA	NA	5	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	25	NA	CRISIL A1+

Annexure – List of entities consolidated

Name of the entity	Extent of consolidation	Rationale for consolidation
Dalmia Bharat Ltd (holding company for the cement business)	Full	Common management, business and financial linkages
Dalmia Cement (Bharat) Ltd	Full	
Dalmia Power Ltd	Full	
<i>Subsidiaries of Dalmia Cement (Bharat) Ltd</i>		
Bangaru Kamakshi Amman Agro Farms Pvt Ltd	Full	Similar business with common management, operating and financial linkages
Calcom Cement India Ltd	Full	
D.I. Properties Ltd	Full	
Dalmia Minerals & Properties Ltd	Full	
Geetee Estates Ltd	Full	
Golden Hills Resorts Pvt Ltd	Full	
Hemshila Properties Ltd	Full	
Ishita Properties Ltd	Full	
Rajputana Properties Pvt Ltd	Full	
Jayevijay Agro Farms Pvt Ltd	Full	
Shri Rangam Properties Ltd	Full	
Dalmia Bharat Refractories Ltd (formerly known as Sri	Full	

Dhandauthapani Mines & Minerals Ltd)		
Sri Madhusudana Mines & Properties Ltd	Full	
Sri Shanmugha Mines & Minerals Ltd	Full	
Sri Swaminatha Mines & Minerals Ltd	Full	
Sri Subramanya Mines & Minerals Ltd	Full	
Sri Trivikrama Mines & Properties Ltd	Full	
Alsthom Industries Ltd	Full	
Chandrasekara Agro Farms Pvt Ltd	Full	
OCL Global Ltd	Full	
Dalmia DSP Ltd (with effect from July 10, 2018)	Full	
Hopco Industries Ltd (with effect from December 21, 2018)	Full	
<i>Stepdown subsidiaries of Dalmia Cement (Bharat) Ltd</i>		
Cosmos Cements Ltd (subsidiary of Dalmia Minerals & Properties Ltd)	Full	Similar business with common management, operating and financial linkages
Sutnga Mines Pvt Ltd (subsidiary of Dalmia Minerals & Properties Ltd)	Full	
OCL China Ltd (subsidiary of OCL Global Ltd)	Full	
Vinay Cements Ltd (subsidiary of Calcom Cement India Ltd)	Full	
RCL Cements Ltd (subsidiary of Vinay Cements Ltd)	Full	
SCL Cements Ltd (subsidiary of Vinay Cements Ltd)	Full	
Dalmia OCL Ltd (subsidiary of Dalmia Bharat Refractories Ltd; with effect from October 7, 2019)	Full	
<i>Joint ventures (JVs) of Dalmia Cement (Bharat) Ltd</i>		
Khappa Coal Company Pvt Ltd	Proportionate	JVs of Dalmia Cement (Bharat) Ltd
Radhikapur (West) Coal Mining Pvt Ltd	Proportionate	

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	75.0	CRISIL AA+/Stable / CRISIL A1+		--	15-09-20	CRISIL AA+/Stable / CRISIL A1+		--		--	--
Non-Fund Based Facilities	ST	25.0	CRISIL A1+		--	15-09-20	CRISIL A1+		--		--	--
Commercial Paper	ST	300.0	CRISIL A1+		--	15-09-20	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	25	CRISIL A1+	Bank Guarantee	25	CRISIL A1+
Overdraft Facility	5	CRISIL A1+	Overdraft Facility	5	CRISIL A1+
Proposed Short Term Bank Loan Facility	20	CRISIL A1+	Proposed Short Term Bank Loan Facility	20	CRISIL A1+
Proposed Term Loan	50	CRISIL AA+/Stable	Proposed Term Loan	50	CRISIL AA+/Stable
Total	100	-	Total	100	-

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for Consolidation](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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