Dalmia Bharat Refractories Limited

June 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term / short term bank facilities	76.00	CARE A; Stable / CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank loan facilities of Dalmia Bharat Refractories Limited (DBRL) reflects benefits derived from being a part of the financially strong Dalmia Bharat group. DBRL also has strong financial flexibility supported by a robust networth, significant marketable investments, and cash & cash equivalents.

In the past, DBRL housed refractory business with manufacturing facilities majorly in India followed by Germany and China. In FY23, its Indian refractory business was sold to RHI Magnesita India Limited. The company also sold its entire shareholding in its subsidiary Dalmia GSB Refractories GmbH (Dalmia GSB) to RHI Magnesita Deutschland AG in FY24.

In October 2023, DBRL announced that the resolution plan submitted by it along-with Himadri Speciality Chemicals Limited (HSCL) for acquiring Birla Tyres Limited (BTL) as a strategic partner under Corporate Insolvency Resolution Process had been approved by the Honourable NCLT. Further, under a scheme of arrangement between Dalmia Bharat Sugar and Industries Limited (DBSIL) and DBRL, DBSIL by way of demerger would transfer the Dalmia Magnesite Corporation (DMC Unit) and Govan Travels (GT Unit) to DBRL. This is under process. In the interim, the company has taken on lease Dalmia Magnesite Corporation (DMC) unit which is engaged in the business of manufacturing of refractories from Dalmia Bharat Sugar and Industries Limited (DBSIL) with effect from October 1, 2023. Though, currently, the refractory business is modest, the promoter group has an established track record in refractory business which is expected to support its ramp up of operations over the medium term to long term.

The ratings, however, are tempered by the company's absence of track record in tyre business. DBRL is a new entrant in the highly competitive tyre industry. Further, the scale of operations is modest, though ramp up in operations are expected across all the current existing business verticals over the medium term. Considering, the initial losses expected from tyre business, the operating profitability is also expected to remain modest over the medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly ramping up scale of operations and profitability leading to gross cash accruals more than ₹150 crore.

Negative factors

- Any significant change in terms of stance by the Dalmia Bharat group towards DBRL like transfer/sell of listed investments and/or withdrawal of liquidity from DBRL or removal of "Dalmia Bharat" from the name.
- Increase in debt levels of the group or significant deterioration in market value of investments leading to deterioration in the ratio of 'market value of investments and liquidity'/total (on balance sheet debt including debentures) falling below 2.5x on a sustained basis.
- Inability to ramp up operations as envisaged leading to sustained operational losses over the medium term

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered a consolidated view of the parent (DBRL) and its subsidiaries owing to significant business, operational and financial linkages between the parent and subsidiaries. Details of subsidiaries and associates consolidated as on March 31, 2024, are listed in Annexure - 6.

Outlook: Stable

The 'stable' outlook reflects that DBRL will continue to derive benefit from its strong promoter group and financial flexibility in the medium- to-long term as the company ramps up operations across all verticals. No significant operational losses are expected in the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Detailed description of the key rating drivers

Key strengths

Strong Financial Flexibility

The company has net worth of ₹2566 crore as on March 31, 2024. The net worth shot up from ₹673 crore as on March 31, 2022, to ₹2156 crore as on March 31, 2023, considering gain from sale of its refractory units in India in FY23 and Germany in FY24. The company has significant cash & cash equivalents and investments. The company has listed equity investments worth ₹1802 crore (shares of RHI Magnesita India Limited (RHI) worth ₹1493 crore and DBL of ₹309 crore), mutual funds of ₹149 crore and cash & bank balance of ₹243 crore as on March 31, 2024 (out of the same, about ₹200 crore is expected to be utilised to purchase Dalmia Bharat Limited Equity Shares). Against this, DBRL has debt of ₹624 crore as on March 31, 2024, of which, ₹395 crore is external debt and balance is from Himadri Speciality Chemical Limited in the form of non-convertible debentures/optionally convertible debentures. Investments plus liquidity to debt multiplier is 3.53x, signifying strong financial flexibility, which will allow the company to absorb headwinds, in the next 1-2 fiscal years. It should be noted that DBRL has board's resolution to invest amount not exceeding ₹500 crore in more than one tranche in the next 36 months, in Hippo in the form of investment in equity share capital/compulsorily convertible/optionally convertible debentures or other security instruments. However, in every new fiscal year, this needs to be revalidated by board and shareholders for incremental investment.

Financially strong promoter group

DBRL belongs to the Dalmia Bharat Group. Key companies of the group are established players in the cement and sugar manufacturing in India.
Since the company has significant investments and cash & cash equivalents housed in DBRL itself, no short-term promoter funding support is required. However, the company will benefit being part of the Dalmia Bharat group because of the strong brand equity derived for funding requirements or dealing with stakeholders for operational purposes.

Established track record in refractory business

With its long track record of operations through different entities and owing to its association with Dalmia Bharat Group, the group had established itself as one of the established players in the refractory business and received repeat orders from large and reputed players in the cement and steel industry.
Though, the company has sold its Indian and German refractory businesses, but it retains the Chinese business and has taken on lease DMC refractory unit from DBSIL. Though the company reduced its market presence in refractory business, however, its long track record allows it to connect with the previous clients and ramp up its business in the medium term.

Key weaknesses

New entrant in a highly competitive tyre Industry

With the acquisition of Birla Tyres Limited, the company is a new entrant in tyre industry. The Indian tyre industry has witnessed intense competition between domestic players and Chinese tyre manufacturers. The level of competition by international players is significantly higher in the Trucks & Bus segment, which is price sensitive. In the past years, due to imposition of antidumping duty till December 2022 and further imposition of anti-subsidy duty in June 2019, competition from Chinese players was mitigated to an extent. In June 2020, the government-imposed curbs on imports of certain new pneumatic tyres used in motor cars, buses, lorries, and motorcycles, in a move to promote domestic manufacturing. Putting goods under restricted category means an importer would require a licence or permission from the directorate general of foreign trade (DGFT) for imports. Earlier, import of these tyres was allowed without restrictions.

With the removal of anti-dumping duty on Chinese tyres and restrictions on imports, domestic players are expected to face increasing competition. The group will face competition from other Indian players once it starts operations and its ability to profitability scale up in this segment remans a key monitorable.

Modest scale of operations

In FY22, the company recorded revenue of ₹1241 crore (including refractory business of India and Germany). With the sale of refractory business of India and Germany, the company's revenue significantly scaled down to ₹116 crore in FY24 from continuing operations. OCL Global Ltd (China) booked revenue of ₹64 crore in FY24, while revenue refractories inventory post sale of assets was ₹30.33 crore and DMC unit booked revenue of ₹10.48 crore in H2FY24. DMC unit was taken on lease by DBRL with effect form October 1, 2023. In the medium term, the company is banking on increasing revenue from tyre business significantly, while rest of the incremental revenue is expected from refractories business and sale of minerals such as magnesite and dunite from its owned mines. These mines are yet to be operational and environmental clearance is pending, which is expected to be received by H1FY25.
Hence, of three major revenue generating segments, the company is yet to start operations of tyres and mines, while the company is ramping up its production of refractories.

Modest operating profitability expected

In FY24, the company booked operational loss considering limited operations amidst sale of refractory business and acquisition of BTL.

FY25 is expected to be the first year of operation of tyre business under DBRL, and hence, there is expected to be loss in FY25. However, rest of the segments are expected to be operationally profitable. DBRL's ability to profitably scale up operations in all segments remains a key monitorable.

Liquidity: Strong
Strong liquidity is marked by significant cash & cash equivalent buffer. The company has liquidity (includes cash & cash equivalents and investment in mutual funds) of ₹392 crore as on March 31, 2024. However, about ₹200 crore is expected to be utilised to purchase Dalmia Bharat Limited equity shares. The term loan principal repayments will start from December 2026 onwards. Hence, the company has significant cushion to execute its plan regarding the tyre business and scaling up of refractory business. It is also expected that HSCL will infuse funds in the form of non-convertible debentures for capital expenditure or working capital in the medium term. In the initial phase of operations, the company is expected to face headwinds. The significant liquidity buffer provides cushion to manage such headwinds. The company currently has overdraft facility of ₹1 crore, which is not being utilised.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Factoring Linkages Parent Sub JV Group
Auto Components & Equipments

About the company and industry
Industry classification

Macro economic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

DBRL was originally formed due to an amalgamation of the refractory business of Dalmia group under different entities. Later, its refractory business was sold to RHI Magnesita India Limited. The company also sold its entire shareholding in its subsidiary Dalmia GSB to RHI Magnesita Deutschland AG. The stake of Dalmia Cement (Bharat) Limited in the company has been transferred to Sarvapriya Healthcare Solutions Private Limited, which is part of the same promoter group.
DBRL has announced that the resolution plan submitted by it along-with Himadri Speciality Chemicals Limited as a strategic partner for the acquisition of BTL under Corporate Insolvency Resolution Process was approved by the Honourable NCLT on October 19, 2023. Furthermore, the company manufactures refractory from the recently leased DMC unit from DBSIL.

Brief Financials (₹ crore) – Consolidated	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	344	116
PBILDT	23	-27
PAT	1307	47
Overall gearing (times)	0.04	0.24
Interest coverage (times)	5.76	NM

A: Audited UA: Unaudited; NM: Not Meaningful; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	76.00	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	-	-	-	1)Withdrawn (31-Oct-23)	1)CARE AA- / CARE A1+ (RWD) (27-Dec-22) 2)CARE AA- / CARE A1+ (CW with Developing Implications) (07-Dec-22) 3)CARE AA-; Stable / CARE A1+ (13-Jun-22)	-
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (31-Oct-23)	1)CARE AA- (RWD) (27-Dec-22) 2)CARE AA- (CW with Developing Implications) (07-Dec-22) 3)CARE AA-; Stable (13-Jun-22)	-
3	Non-fund-based - LT-Standby Letter of Credit	LT	-	-	-	1)Withdrawn (31-Oct-23)	1)CARE AA- (RWD) (27-Dec-22) 2)CARE AA- (CW with Developing Implications) (07-Dec-22) 3)CARE AA-; Stable (13-Jun-22)	-

4	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)Withdrawn (31-Oct-23)	1)CARE AA- / CARE A1+ (RWD) (27-Dec-22) 2)CARE AA- / CARE A1+ (CW with Developing Implications) (07-Dec-22) 3)CARE AA-; Stable / CARE A1+ (13-Jun-22)	-
5	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	1)Withdrawn (31-Oct-23)	1)CARE A1+ (RWD) (27-Dec-22) 2)CARE A1+ (CW with Developing Implications) (07-Dec-22) 3)CARE A1+ (13-Jun-22)	-
6	Fund-based/Non-fund-based-LT/ST	LT/ST	76.00	CARE A; Stable / CARE A1				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	OCL Global Limited	Full	Wholly owned subsidiary
2.	OCL China Ltd	Full	Step Down Subsidiary (90% held by OCL Global Limited)
3.	Himadari Birla Tyre Manufacturer Private Limited (Earlier known as Dalmia Mining and Services Private Limited)	Full	Subsidiary (99.99% held by DBRL)
4.	Birla Tyres Limited	Full	Subsidiary (99.99% held by DBRL)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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