

Dalmia Refractories Limited

February 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities- Fund Based	40	CARE A- (Single A Minus; Under Credit Watch with Positive Implications)	Revised from CARE A- (Single A Minus; Under Credit Watch with Developing Implications)
Long-term Bank Facilities- Non-Fund Based (stand by limit)	93	CARE A- (Single A Minus; Under Credit Watch with Positive Implications)	Revised from CARE A- (Single A Minus; Under Credit Watch with Developing Implications)
Long-term/Short-term Bank Facilities – Non-Fund Based	40	CARE A-/ CARE A2+ (Single A Minus/ A Two Plus; Under Credit Watch with Positive Implications)	Revised from CARE A-/ CARE A2+ (Single A Minus/ A Two Plus; Under Credit Watch with Developing Implications)
Total	173 (Rupees One Hundred and Seventy Three crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dalmia Refractories Limited (DRL) have been placed on credit watch with positive implications following the possible strengthening of the financial risk profile and increased business capabilities of the ultimate consolidated entity post the amalgamation of refractory businesses of DRL, GSB Refractories India Private Limited (GSB India), Sri Dhandaauthapani Mines And Minerals Limited (SDMM), Ascension Comercio Private Limited (ACPL) and Dalmia Cement Bharat Limited (DCBL).

CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities of Dalmia Refractories Limited (DRL) continue to derive strength from the strong parentage of the Dalmia group, long track record of operations, reputed clientele, captive mines for sourcing of a part of the raw material requirements and moderate financial risk profile marked with adequate liquidity. These rating strengths are, however, partially offset by its significant dependence on the cement industry which is inherently cyclical, fragmented and competitive nature of the refractory industry and susceptibility of profitability margins to volatility in raw material prices and exchange rate fluctuations.

Rating Sensitivities

Positive sensitivities:

- Timely execution of the amalgamation schemes with requisite regulatory approvals.
- Expansion in the scale of operations and improvement in the profitability margins (PBILDT margin of more than 11%) leading to improvement in the financial risk profile on a sustained basis.
- Ability of the company to manage its working capital requirements while timely realizing its debtors.

Negative sensitivities:

- Any increase in the inventory period of more than 100 days leading to elongation in the operating cycle on a sustained basis going forward.
- Significant deterioration in the capital structure with the overall gearing exceeding 1.50x on a sustained basis going forward.
- Decline in PBILDT margin of more than 3% from the current levels on a sustained basis going forward.

Detailed Description of the Key Rating Drivers

The company vide its letter dated November 14, 2019 to the Metropolitan Stock Exchange (MSE) announced that the Board of Directors, after recommendation of the Audit Committee, has approved the Scheme of Amalgamation and Arrangement amongst DRL, GSB India, SDMM and ACPL. Further, the letter also intimated of the approval of the Schemes of Arrangement by Board members of DRL and Dalmia Cement (Bharat) Limited (DCBL) through which their respective refractory businesses will be consolidated under a single operating entity, which is proposed to be renamed as Dalmia OCL Limited (DOL). DOL in turn would be held by a holding company, which is proposed to be renamed as Dalmia Bharat

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Refractories Limited (DBRL). DOL, post consolidation, is expected to have enhanced production capacities, better operational efficiency and wider geographical coverage, enabling it to extend more diverse product offering to the clientele. Further, with the envisaged expansion in the scale of operations and improvement in the profitability margins, the financial risk and liquidity profile of DOL are expected to be strong.

However, CARE is awaiting more clarity with regard to aforesaid issue and may take a view on the rating of DRL once further clarity emerges on the same.

Analytical approach

Standalone along with factoring standby letter of credit (SBLC) extended to its subsidiaries.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial Ratios - Non-Financial Sector](#)

[CARE's Methodology for factoring linkages in ratings](#)

About the Company

Dalmia Refractories Limited (DRL), formerly known as Shri Nataraj Ceramic and Chemical Industries Ltd, belongs to Dalmia Group which has presence in various industries including cement, sugar, power and refractory. The name of the company was changed to Dalmia Refractories Limited on March 28, 2014, to reflect the group and the brand 'Dalmia Refractories' under which the company's products are marketed.

DRL produces high alumina refractory bricks and castables which are supplied to cement, steel, coke oven and glass industries. Presently, the company has 2 manufacturing units located at Dalmiapuram (Tamil Nadu) and Khambalia (Gujarat), with an aggregate installed capacity of 84,600 metric tonnes per annum (MTPA) for refractory and 24,000 MTPA for calcined bauxite. The company used to previously undertake job work for Dalmia Bharat Ltd (DBL) which has been discontinued w.e.f. April 1, 2014 and the refractories produced are directly marketed to the user industries by DRL.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	179.09	198.56
PBILDT	0.93	12.92
PAT	-3.17	7.04
Overall gearing (incl. acceptances) (times)	0.12	0.15
Adjusted Overall Gearing* (times)	-	0.61
Interest coverage (times)	0.50	7.90

A: Audited

*The adjusted overall gearing has been computed by incorporating the SBLC extended by DRL to DRGG of Rs. 87.91 cr outstanding as on March 31, 2019

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE A- (Under Credit watch with Positive Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	40.00	CARE A- / CARE A2+ (Under Credit watch with Positive Implications)
Fund-based - LT-Stand by Limits	-	-	-	93.00	CARE A- (Under Credit watch with Positive Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A- (Under Credit watch with Positive Implications)	1)CARE A- (Under Credit watch with Developing Implications) (25-Nov-19) 2)CARE A-; Stable (27-Sep-19) 3)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (03-Apr-18)	-	1)CARE A-; Stable (02-Mar-17) 2)CARE A- (03-May-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	40.00	CARE A- / CARE A2+ (Under Credit watch with Positive Implications)	1)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (25-Nov-19) 2)CARE A-; Stable / CARE A2+ (27-Sep-19) 3)CARE A-; Stable / CARE A2+ (03-Apr-19)	1)CARE A-; Stable / CARE A2+ (03-Apr-18)	-	1)CARE A-; Stable / CARE A2+ (02-Mar-17) 2)CARE A- / CARE A2+ (03-May-16)
3.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (02-Mar-17)

								2)CARE A- (03-May-16)
4.	Non-fund-based - LT/ ST-Loan Equivalent Risk	LT/ST	-	-	-	1)Withdrawn (03-Apr-18)	-	1)CARE A-; Stable / CARE A2+ (02-Mar-17) 2)CARE A- / CARE A2+ (03-May-16)
5.	Fund-based - LT-Stand by Limits	LT	93.00	CARE A- (Under Credit watch with Positive Implications)	1)CARE A- (Under Credit watch with Developing Implications) (25-Nov-19) 2)CARE A-; Stable (27-Sep-19)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Letter of credit/ Buyer's credit	There is full interchangeability between BG and LC limits and one-way full interchangeability from fund based working capital limits non-fund based limits
2. Standby Letter of Credit	The DSCR is to be maintained more than 1.25 at all times on consolidated level and net debt to net worth is to be maintained at less than 1.5 times with fixed asset coverage ratio of more than 1.2 at all times basis market value of fixed assets of DRL (standalone).
B. Non-financial covenants	
1. Cash Credit	Collateral security and personal guarantee as per the details to be obtained for all facilities Entire stocks and securities are to be got comprehensively insured for full value as per Bank's extant guidelines
2. Standby Letter of Credit	There is third party security provider in form of exclusive first charge overall the fixed assets and hypothecation overall the movable fixed assets both present and future of GSB Refractories India Private Limited

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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