

Press Release

Dalmia Laminators Limited

May 16, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.07	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	210.10	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	37.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	273.17	-	-

Rating Rationale

Acuite has reaffirmed and assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) and reaffirmed its short-term rating of '**ACUITE A3+**' (read as **ACUITE A Three plus**) on Rs. 273.17 Cr bank facilities of Dalmia Laminators Limited (DLL). The outlook remains '**Stable**'.

Rationale for the rating

The rating on the M L Dalmia (MLD) group considers its increasing revenue trend supported by the established and diverse presence in the plastic woven sacks (PWS) segment, and tea manufacturing.

Further, it is also supported by the management's long track record in both the sectors, efficient collection mechanism, average financial position - characterized by healthy networth base and adequate liquidity position of the group.

These rating strengths are partially offset, pertaining to the competitive exposure in the plastic woven sacks industry, and high inventory holding. Further, the risk of volatility in the raw material prices, impacts the profitability. Although with a lag, the ability to primarily pass on the increase in raw material costs to end customers reduces the risk to some extent.

About Company

Established in 1986, Dalmia Laminators Limited (DLL) have two units in Tamil Nadu and one in Andhra Pradesh manufacturing Plastic Woven Sacks (PWS) used for bulk packaging of cement, fertilizers, food grains and sugar, chemicals, polymers and other commodities.

About the Group

Established in 1997, Dalmia Tea Plantation and Industries Limited (DTPIL) is one of India's leading tea cultivating, manufacturing, and processing company owning the most well equipped tea manufacturing plants in West Bengal. It has an annual capacity of ~ 10.5million kgs per annum.

Established in 1919, Bateli Tea Company Limited (BTCL), is a premium tea producing and marketing company, having a large tea plantation and manufacturing unit in Assam, with an annual capacity of producing ~ 3.5 million kgs per annum. Around 35 per cent of the tea is

produced from the green leaves internally, and the rest 65 per cent is purchased from the neighbouring tea producers

Analytical Approach **Extent of Consolidation**

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Dalmia Laminators Limited (DLL) and its associates-Dalmia Tea Plantations & Industries Limited (DTPIL) and Bateli Tea Company Limited (BTCL) together referred to as the 'MLD Group'. The consolidation is in the view of common promoters and management, intercompany share holdings and strong financial linkages between the entities in the form of unsecured loan extended to each other.

Key Rating Drivers

Strengths

Established and a diverse business profile

The MLD group has been in the PP Woven Sacks segment for around 50 years. The sacks are sold to the end-user industries such as cement, food grain, and fertilizer.

The other two group companies, DTPIL and BTCL, are involved in the production and processing of tea having their own estates. Further, the wide experience of the directors helps promoting the group to establish a strong position in the tea industry, and maintain substantial growth in the revenue. The group will continue to maintain its business risk profile over the medium term aided by its long-standing relationships with reputed customers and suppliers.

Steady growth in operating income of the group supported by modest operating margins

The group has registered revenues of Rs. 553.51 Cr in FY2022 as compared to revenues of Rs.460.50 Cr in FY2021. The revenue of DLL improved in FY22 with the increase in volume of sales as, DLL has been able to diversify its presence, production and sale of PP Woven Sacks to the end user industries. This mitigates the customer concentration risk as the industrial fluctuations of any particular segment will not adversely affect the performance company, giving them a competitive advantage.

However, the revenues of both DTPIL and BTCL moderated in FY2022, on account of moderation in north Indian tea prices in FY22. Even though the realization for DTPIL was lower in FY23, DLL improved significantly due to higher conversion of the endproducts. The group has already achieved revenues of Rs. 425.16 Cr. till December 2022 (Provisional).

The operating margin of the group declined to 13.05 per cent as on 31st March, 2022 from 14.53 per cent in FY2021. Also, the PAT margin of the group declined to 2.86 per cent in FY2022 from 3.57 per cent in FY2021. The profitability margins of DLL has been volatile over the past, due to the fluctuations in raw materials prices, which includes crude-oil derivatives like highdensity polyethylene, low-density polyethylene, and polypropylene for manufacturing industrial plastics. Since raw material costs account for ~74 per cent of total production cost, even a slight variation in the rates of raw materials drastically impacts the profitability. However, the group has demonstrated its ability to pass on the increase in raw material costs, although done with a lag. The group is also a partially integrated tea manufacturer, sourcing around 85 per cent of required tea leaves from other estates. High proportion of outside purchases keeps the operating margin modest, also diminishing the risks associated with the fixed cost nature of production of tea plantation companies. Bought leaf operations provide stable, albeit low, margins as green leaf prices move largely in tandem with end-product realisations. The Return on Capital Employed (ROCE) of the group stood moderate at 8.30 per cent as on FY2022 as compared to 8.44 per cent as on FY2021.

The diversified product range of the group will help to maintain its business risk profile over the medium term. Acuité believes notwithstanding another round of wage increase in FY23 (Aug'22) the operating profit margins of bulk tea players is likely to improve in FY 2023 given the buoyancy in tea prices particularly of good quality CTC and ODX.

Average financial risk profile

The group's average financial risk profile is marked by healthy networth base, moderate gearing and modest debt protection metrics. The tangible net worth of the group improved to Rs.302.75 crore as on March 31, 2022 from Rs.263.73 crore as on March 31, 2021 due to accretion of the reserves. The gearing of the group stood moderate at 1.10 times as on March 31, 2022 as compared to 1.24 times as on March 31, 2021, due to substantial reliance on external debt to support the working capital requirements, largely through Guaranteed Emergency Credit Line (GECL) since FY2021. However, the promoters have extended significant financial support to the group, via unsecured loans to cover the working capital and the debt obligations. Acuité has considered unsecured loans to the tune of Rs.22.60 Cr as on March 31, 2022 as part of networth as these loans are subordinated to bank debt. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.39 times as on March 31, 2022 as against 1.53 times as on March 31, 2021. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio at 2.31 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.01 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.11 times as on March 31, 2022. Acuité believes that going forward, despite having continuous capex towards replantation to ride-out the adversity of the age profile of the tea-bushes, the financial risk profile of the group may continue to remain healthy, backed by steady accruals.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is reflected from the improved GCA days of 167 days as on March 31, 2022 as compared to 185 days as on March 31, 2021. The high GCA days are on account of high inventory period of the group which stood at 121 days as on March 31, 2022 as compared to 122 days as on 31st March 2021. The inventory levels of the tea companies is usually high because as the tea production starts from April/May, and the company have to keep significant inventory during the year to mitigate the risk of low production in the last quarter. The high inventory period of DLL, is mainly driven by high inventory requirements in line with its delivery service to the prominent clients in its portfolio on a timely basis, and hence the requirement to maintain the inventory. However, the debtor period stood comfortable at 49 days as on 31st March, 2022 as against 52 days in FY2021. Acuité believes that the working capital management of the company may continue to remain at similar levels over the medium term on account of requirement to maintain a high level of inventory.

Intense competition in the PP woven sacks industry

The industry for PP woven sacks is highly fragmented as there are several unorganized players with small capacities catering to regional demand, due to the economies in transport costs and generally short period service requirements thus limiting the opportunities for players like MLD group to increase their scale of operations.

Exposure to volatility in tea prices and changing weather conditions

Tea is a seasonal product and the yielding depends on weather conditions. The production could be hampered significantly in case irregular raining, humidity and temperature. Due to the poor weather conditions, deterioration in production levels and quality leads to volatility in realisations. Moreover, there is a need of continuous investment towards replantation. Acuité notes that the group has been taking specific steps to address the same by following a definite annual replantation policy. Also, the yields have been supported by increasing

acreage under high-yielding clones and other focused efforts taken towards sustaining productivity.

Rating Sensitivities

- Sustainability in revenue growth and margins
- Further elongation of working capital cycle
- Improvement in capital structure and debt protection metrics

Material Covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by adequate net cash accruals stood at Rs.36.34 Cr as on March 31, 2022 as against long term debt repayment of Rs.35.93 Cr over the same period. The current ratio stood moderate at 1.12 times as on March 31, 2022. The cash and bank balances of the group stood at Rs.1.41 Cr as on March 31, 2022. However, due to the operations being working capital intensive there is significantly dependent on external debt to fund its working capital requirements which is reflected in moderate average fund based limit utilization at ~79.82 per cent over the six months ended March, 2023. The group has also availed additional Covid loan. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals. Support from the promoters through unsecured loans further aids liquidity.

Outlook:

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management and sound business position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues coupled with sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or further elongation in its working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	553.51	460.50
PAT	Rs. Cr.	15.81	16.45
PAT Margin	(%)	2.86	3.57
Total Debt/Tangible Net Worth	Times	1.10	1.24
PBDIT/Interest	Times	2.31	2.37

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such

instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2022	Working Capital Term Loan	Long Term	4.25	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	13.50	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3+ (Assigned)
	Working Capital Term Loan	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	2.60	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	11.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	24.50	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	88.25	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3+ Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A3+ Reaffirmed
Indusind Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.50	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE BBB Stable Reaffirmed
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.82	ACUITE BBB Stable Reaffirmed
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.68	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	5.60	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.84	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	8.65	ACUITE BBB Stable Reaffirmed

Indusind Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	26.94	ACUITE BBB Stable Reaffirmed
UCO Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	5.39	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	77.75	ACUITE BBB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Srijita Chatterjee Lead Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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