Mangalam Cement Limited (Revised)

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	646.09 (Enhanced from 626.09)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	220.00	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	**866.09 (Rs. Eight Hundred Sixty-Six Crore and Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating continues to factor in promoter's experience coupled with long & established track record of the group, its established brand with concentration in the northern region and strong distribution network. The ratings further factor in the operating efficiency arising out of backward integration through availability of limestone reserves and captive power plants, cost optimization offered by the newly commissioned WHRS plant, split units of the project, proximity of the project to various raw material sources, availability of coal linkage for CPP power requirements and eligibility for subsidies and rebates from various state governments. The ratings also take into cognizance the completion of enhancement in clinker capacity by 0.3 MTPA in Morak as well as approval of scheme of amalgamation of Mangalam Timber Products Ltd (MTPL). The ratings further, derive strength from strong liquidity position of the company.

The ratings, however, are constrained by exposure of MCL to competitive pressure given its geographical concentration and scale of operation, volatility in input and finished goods prices, partial procurement of high cost limestone from the open markets and cyclicality of cement industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operation leading to increase in total operating income (to greater than Rs.2000 crore) and profitability (PBILDT margin greater than 18%) on a sustained basis.
- Improvement in capital structure (overall gearing less than 0.5x) and debt protection metrics (PBILDT interest coverage greater than 7.50x) on a sustained basis.

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Lower than envisaged profitability leading to decline in PBILDT margins below 14% or PBILDT interest coverage going below 2.00x
- Any further large-scale debt funded capex leading to deterioration in capital structure.

Detailed description of key rating drivers

Key rating strengths

Experience of the promoters coupled with long & established track record of group

The promoter of MCL, B.K. Birla group, is a leading industrial group with major interests in tea, chemicals & fertilizers, cement, tyres, textiles, vegetable oils, etc. Late Mr. B. K. Birla, the promoter of MCL, was an eminent industrialist. By being a part of the B.K. Birla group, MCL enjoys financial flexibility and has been able to raise resources in times of need. MCL is a professionally managed company with Board of Directors comprising highly experienced and eminent personalities. The company also has a qualified & experienced management team.

Established brand with concentration in the northern region

MCL was incorporated in 1976 and commenced its business in 1977. The company generally produces two grades of cement, viz., PPC (~70%) and OPC (~30%), sold under the brand name '*Birla Uttam Cement*' which is well recognized in majorly in the

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

northern markets. Northern region contributed around 78% of the total sales in 9MFY22 and FY21. Rajasthan & Uttar Pradesh forms the major market with the contribution of about 75%.

Strong distribution network
MCL has established an extensive network for marketing its products. The company has a network for 63 sales promoters, 1221 dealers and 2750 sub dealers for selling the cement to the end customers in the above-mentioned territories. The extent of reliance on any particular dealer is minimal as the top five dealers contribute around 6.50% to the sales of the company in FY21. Furthermore, in view of the established brand along with strong distribution network, the company finds it easier to expand its reach and diversify its sales.

Backward integration with partial procurement of limestone from open market
MCL has a captive limestone mine situated at a close proximity to the plant which meets almost 90% of the total limestone requirement of the company. Proximity to the major raw material source minimizes the transportation cost for sourcing of the raw materials and enhances the operational effectiveness. However, the company mixes the captive limestone from Morak mines with high grade limestone which is partially procured from its captive mine at Gagrana, Nagaur, Rajasthan located at a distance of about 350 kilometres and partly from open markets from the same region. Procurement of limestone from Nagaur involves high transportation cost and subsequently higher raw material cost. About 12% (PY: 9.29%) of the company's limestone requirement was procured from open market in FY21.
Further, as guided by the management, the company has recently started procuring limestone from a nearby mine in Chittorgarh, which is expected to provide some cost saving going forward on the raw material front.

Cost optimization offered by split units of the project and proximity of the project to various raw material sources
Manufacturing facility of MCL at Morak, Rajasthan provides clinker to both its grinding facilities at Morak and Aligarh. The company operates grinding unit at Aligarh to save upon cost of logistics, as the unit is close to target user markets of UP and MP. Limestone requirements of clinkering unit at Morak is met ~90% from the captive limestone mines near the plant. Fly ash is acquired partly from the thermal power plant at Kota which is approximately 70 kms from the plant and partly from captive power plant of MCL. Further, apart from limestone and fly ash which constitutes the basic raw materials, sources of other raw materials are also located in close proximity to the project sites which in turn enables the entity to optimize its costs.
As guided by management, MCL has signed agreement with a power plant in vicinity to procure fly ash for its Aligarh unit from Feb-22 onwards. This will reduce cost of fly ash to some extent.

Captive power plant including newly established WHRS plant meeting majority of the power requirement leading to savings in power cost
The company has two units of coal based captive power plant with an installed capacity of 35 MW in Kota, two units of wind based power with an installed capacity of 13.65 MW in Jaisalmer and newly established 11 MW WHRS plant in Kota ensuring continuous supply of power at competitive rates. The captive power sources catered to about 85% of the company's power requirement in FY21 and 9MFY22 (PY: 71% in FY20). Since the WHRS plant was made operational by August 2020, the percentage of power being sourced from grid has reduced. The company has also reduced the power supply arrangement of grid from 17.50 MW to 11 MW in July 2020. (Reducing fixed cost of ~Rs.1.5 crore per annum).
Power consumption per tonne of cement stood at 74 kwh/tonne in FY21 (PY: 78 Kwh/tonne in FY20). The same stood in-line at 73 kwh/tonne in 9MFY22.

Moderated profitability in 9MFY22, post robust performance in FY21
The total sales of the company witnessed a growth of 6% y-o-y from Rs.1253 crore in FY20 to Rs.1327 crore in FY21, aided by firm realization levels and growth in sales volumes. PBILDT margin improved significantly from 17.93% in FY20 to 21.73% in FY21 on account of lower power and fuel and freight costs. This has led to improvement in PBILDT/t from Rs.842 in FY20 to Rs.1,016 in FY21. Savings in fuel cost were primarily owing to fall in coal prices driven by coal sourcing from linkages and forward purchases at competitive prices. With commencement of WHRS by the company, the overall power and fuel cost has reduced substantially.
The company earned a net profit of Rs.109 cr in FY21 as against Rs.75.90 crore in FY20. On GCA level, the accruals generated increased from Rs.146 cr to Rs.198 cr in FY21.
In 9MFY22, the revenue reported growth of 24% as compared to corresponding period of previous year, driven by better volumes and firm realizations. PBILDT margins however moderated to 16.09% (PY: 20.50% in 9MFY21) on the back of increased power and fuel cost and freight costs. PBILDT/t has declined from Rs.1,016 per ton in FY21 to Rs.683 per ton in

9MFY22. The power and fuel costs have increased from Rs.1,047/ ton to Rs.1,260 per ton while freight costs have increased from Rs.979/t to Rs.1,221/t during this period. Further, PAT margins stood at 5.29% as against 6.36% in 9MFY21.

Improvement in capacity utilization in FY21 and 9MFY22

MCL's capacity utilization (CU) for cement has improved from 68% in FY20 to 70% in FY21 and 80% in 9MFY22, partly owing to lower base in FY20 due to heavy monsoon and temporary shutdown of operations towards the end of March 2020. The CU level further improved in FY22, touching high of 81% in Q2FY22. In Q2FY22, the company has completed enhancement in clinker capacity at its existing facility at Morak, Rajasthan from 2.30 million ton to 2.60 million ton. As estimated, the enhanced clinker capacity will be a material step in increasing the capacity utilisation of its cement plant.

Moderate capital structure

Capital structure of the company remained moderate with adjusted overall gearing ratio (adjusted for investments in affiliates and others except MTPL as the same has now been amalgamated with MCL) at 0.98x as on March 31, 2021, which has marginally improved as compared to 1.24x as on March 31, 2020. The gearing has been high on account of availment of new long term loans by the company in FY20 for the WHRS plant and FY21 for expansion of clinker capacity. The same has improved in FY21 on account of accretions of healthy profits to net worth. Going forward, the management guidance is that the gearing levels are expected to decline with no major debt funded capex planned and gradual repayment of term debt.

However, there has been significant improvement in debt protection metrics with Total Debt/PBILDT and interest coverage ratio of the company improving from 2.80x and 3.55x in FY20 to 2.04x and 4.58x in FY21 respectively, mainly on account of increase in GCA as a result of increase in realization and profit margins (both at PBILDT and PAT levels) during the year. Net debt/PBILDT stood at 1.23 years as on Mar 31, 2021 as against 2.14 years for the previous year.

Eligible for subsidies

The company is eligible to avail certain subsidies provided by Government of Rajasthan & U.P. on account the expansion project undertaken by the company in both 2014 and September 2016. In FY21, MCL was entitled to a subsidy of Rs. 5.41 crore (Rs. 3.96 crore in FY20) and Rs.2.86 crore for H1FY22. Total subsidy due to be received is Rs.7.42 crore as on Sept 30, 2021. The Company is also eligible for interest free loan from the Government of Uttar Pradesh, over a period of 10 years, which will be repaid after 7 years from the date of first disbursement. Further, the company became eligible for Railway freight rebate under the Long term traffic contract, scheme of the Ministry of Railways. The company is eligible for rebate of ~Rs.11 crore for the period Nov 2019 to Oct 2020 under the scheme. The incentives provide added cost advantage to the company.

Key rating weaknesses

Exposure of MCL to competitive pressure given its geographical concentration and scale of operation

The company operates majorly in Rajasthan, Uttar Pradesh & Madhya Pradesh. The company is exposed to competitive pressure from larger players who operate in these states due its moderate scale of operations.

Volatility in input and finished goods prices

Limestone is the primary raw material for manufacturing cement. Further, the industry being high power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet coke and crude oil. For limestone, MCL has its captive mines in Morak, Rajasthan but due to relatively inferior quality, the company also has to procure good quality of limestone partly from captive mines as Gagrana (~350Kms from the plant) and partly from open markets which are relatively costly (details covered in previous sections).

While pet coke is mostly imported, for coal the company is relying on both domestic and international sources. Linkage agreements have been made by the company in Q4FY19 for meeting most its coal requirements for power plants from Coal India Limited at competitive prices. Coal linkages catered to around 57% (PY: 46%) of the coal requirement of CPP (21% overall including kiln; PY: 17%) in FY21 which improved to ~62% and ~25% in H1FY22 respectively.

The fuel prices have increased drastically during 9MFY22 as compared to FY20 and FY21. As on date, the company has inventory of coal/ pet coke upto May-22. However, dependence on open markets for sourcing majority of its coal requirement exposes the company to the risk of price fluctuations.

This apart, the freight cost also forms one of the major cost components which are co-related to crude prices, which in turn are directly linked with the overseas crude price variations. Hence, the Company remains exposed to the risk arising out of the fluctuation in the prices of the crude in future. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials or the crude cost without a corresponding movement in the price of the cement can affect the profitability of the company.

Cyclicality of the cement industry

Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations.

Industry outlook

Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. Due to this cyclicality, the company remains exposed to risks associated with the same. During FY20, weakness in housing demand, prolonged rains in many parts of the country and decline in demand from the infrastructure segment due to lack of funding and halting/ temporary stoppage of state projects following change in government post state elections had a negative bearing on the production of cement in the domestic markets. Further, with the outbreak of the Covid-19 pandemic in the Indian sub-continent which forced the government to announce a nation-wide lockdown also affected the domestic cement production during FY20 and FY21.

The performance of cement companies is likely to remain stable despite the challenges of Covid pandemic. For FY22, the domestic cement production is expected to register a mid-teen growth. The demand is expected to be driven by recovery of activity in the urban housing sectors, upcoming general elections in 2024, infrastructure projects as well as rural demand and renewed real estate demand. However, any potential halt on the construction activities amidst upsurge of infections pertaining to any further Covid-waves shall remain a key monitorable for the growth in the coming months. Due to the input cost upsurge in FY22, the EBITDA margins for the players is likely to moderate. In the present circumstances where the sector is grappling with the higher input cost, a sustained increase of prices along with demand stand critical for the operational performance of the players in the near term.

Liquidity -Strong

The liquidity position of MCL is adequate with gross cash accruals of Rs.198 cr in FY21 and Rs.106 cr in 9MFY22. As against these, debt repayment of ~Rs.54 cr have been made till Jan 31, 2022, with balance repayment of ~Rs.19 cr pending to be done. The average fund based utilization of MCL in last 12 months has been at 71% (PY: 78%) with unutilized line of credit standing at ~Rs.43 crore as on Dec 31, 2021. As part of the liquidity policy, the management keeps liquid balances at all times to meet contingencies. The balance stood at Rs.235 cr as on Mar 31, 2021 and Rs.210 cr as on Jan 31, 2022 mainly in form of mutual funds and bank balances.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Factoring Linkages in Ratings
CARE's methodology for cement companies
Financial Ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies

About the Company

Incorporated in 1976 and having commenced its business in 1977, Mangalam Cement Ltd. (MCL) is a professionally run company, managed by Smt. Vidula Jalan of the B.K. Birla group. The company is engaged in the business of manufacturing cement and currently has an installed cement capacity of 4.00 MTPA (0.75 mpta grinding unit at Aligarh commenced commercial operations in Sep'16), clinker capacity of 2.60MTPA, coal based captive power plant of 35 MW (two plants with a capacity of 17.50 MW each) located at Kota, 11 MW WHRS unit also located at Kota and 13.65 MW wind power plant (two plants with a capacity of 6.15 MW and 7.50 MW) located at Jaisalmer, Rajasthan. The company markets and sells its product under the brand name of Birla Uttam Cement. MCL's product mix comprises of both PPC (Pozzolana Portland Cement) and OPC (Ordinary Portland Cement).

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	1253	1327	1134
PBILDT	225	288	183
PAT	76	109	60

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Overall gearing (times)	1.11	0.87	NA
Interest coverage (times)	3.55	4.58	3.84

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	175.00	CARE A+; Stable
Term Loan-Long Term		-	-	Sept-2026	371.09	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	220.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan		-	-	Sept-2026	100.00	CARE A+; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	175.00	CARE A+; Stable	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)	1)CARE A+; Stable (19-Feb-19) 2)CARE A+; Stable (10-Aug-18)
2	Term Loan-Long Term	LT	371.09	CARE A+; Stable	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)	1)CARE A+; Stable (19-Feb-19) 2)CARE A+; Stable (10-Aug-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	220.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (07-Mar-22)	1)CARE A+; Stable / CARE A1+ (31-Dec-20)	1)CARE A+; Stable / CARE A1 (23-Dec-19)	1)CARE A+; Stable / CARE A1 (19-Feb-19) 2)CARE A+; Stable / CARE A1 (10-Aug-18)
4	Fund-based - LT-Term Loan	LT	100.00	CARE A+; Stable	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)	1)CARE A+; Stable (19-Feb-19)

								2)CARE A+; Stable (10-Aug-18)
5	Commercial Paper-Commercial Paper (Standalone)	ST	75.00	CARE A1+	1)CARE A1+ (07-Mar-22)	1)CARE A1+ (31-Dec-20)	1)CARE A1 (23-Dec-19)	1)CARE A1 (19-Feb-19) 2)CARE A1 (10-Aug-18)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)	1)CARE A+; Stable (19-Feb-19) 2)CARE A+; Stable (10-Aug-18) 3)CARE AA-; Stable (06-Apr-18)

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Minimum net working capital	25% of current assets
B. Non financial covenants	
I. Furnishing of audited balance sheet	Immediately on being published/ signed by auditors
II. Insurance	All stocks and collateral securities to be kept fully insured

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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