Meghalaya Cements Limited

December 07, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	125.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	15.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**140.00 (₹ One Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Meghalaya Cements Limited (MCL) takes note of improvement in the scale of operations of the group in FY22 (period from April 01 to March 31) on the back of increase in both sales volume and average sales realisation of cement albeit moderation witnessed in PBILDT margin primarily on account of rising coal prices. The ratings also take into account absence of debt in Topcem India (TI) and no term debt obligations in MCL thereby leading to comfortable capital structure and debt coverage indicators.

The ratings continue to draw comfort from the experienced promoters, established brand name, backward integration in the form of captive limestone mines, and captive power plant meeting a portion of the power requirement of the company. The ratings also derives strength from satisfactory capacity utilisation during FY22 and Q1FY23 (period from April 01 to June 30), strong distribution network and government's thrust on developing infrastructural activities in the North Eastern Regions.

The ratings, however, are constrained by volatility in the input and finished good prices, risk of capital withdrawal in Topcem India (TI) due to partnership nature of its constitution. Further, the rating is also tempered by competition from established players in the North East region, sales concentration of the group in North eastern states and cyclical nature of the cement industry.

Rating sensitivities

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

- Ability of the company to diversify geographically while maintaining satisfactory gearing ratio of below 0.70x
- Substantial increase in scale of operations.

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

- Deterioration in Total Debt/PBILDT above 1.00x and PBILDT interest coverage below 10x
- Any substantial debt-ridden capex leading to deterioration in capital structure leading to increase in TD/GCA above 2.50x
- Withdrawal of partner's capital beyond reported PAT.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters

MCL, incorporated in 2003, was promoted by four businessmen of North-Eastern India. All of them are renowned businessmen of north-east having over three decades of experience in various industries like iron & steel materials, ferro alloys, coke, tea, cement, cigarette, industrial gases, plywood, real estate, etc.

Backward integration in the form captive limestone & shale mines

MCL has backward integration in the form of captive limestone & shale mines. MCL has received the environmental and other clearances for its limestone mines of 31.05 hectares in February 2018 and the company is meeting its entire limestone requirement through own mines. Furthermore, the company also owns a captive shale mine which is estimated to meet its requirements for over next five decades.

Captive power plant meeting a portion of the power requirement

The company has a coal based captive power plant (CPP) with an installed capacity of 10 MW which meets a portion of the power requirement of the plant. The contribution of CPP to meet the overall power requirement has reduced in FY22 and Q1FY23 on account of lower availability of coal. Hence, the company has started to source majority of its power from Meghalaya State

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

Electricity Board (MSEB).

At Topcem India, entire power requirement is sourced from the grid. The availability of the captive power plant for part power requirement reduces the dependence on the expensive source of power from the grid thereby optimizing the power & fuel cost to some extent.

Further, MCL has entered into coal linkages with Eastern Coalfields Limited and South Eastern Coalfields Limited for coal procurement for five-year term and 30-40% of its coal requirements are met from these two coal linkages.

Strong distribution network albeit sales concentration in North Eastern States

The group has established an extensive distribution network for marketing its products. The company has a network of around ~25 sales promoters and ~725 dealers for selling the cement to the end customers. The group caters majorly to north eastern states of Assam (75% in FY22) and Meghalaya (20% in FY22), where its manufacturing units are established, while rest of the north eastern states viz Tripura and Manipur contributed to the remaining 5% to total revenue in FY22.

Satisfactory capacity utilisation during FY22 and Q1FY23

The capacity utilisation (CU) of the cement division improved from 68% in FY21 to 73% in FY22 to meet the increase in demand of cement with the revival of economic activity in the country post pandemic. CU in Q1FY23 stood at 65% as against 69% CU in Q1FY22. The CU in clinker division was 90% in FY22 and 110% in Q1FY23. The company is utilizing its clinker capacity optimally and needs to increase the capacity in order to fully utilize its existing cement capacity. The ability of the company to enhance its capacity while maintaining satisfactory financial risk profile will be a key rating monitorable.

Improvement in scale of operations in FY22 albeit moderation witnessed in PBILDT margin

Total operating income improved by ~12% y-o-y to Rs.833.02 crore in FY22 (Rs. 745.45 crore in FY21) on a combined basis majorly on the back of increase in both sales volumes and average sales realisation of cement sold. However, the PBILDT margins on a combined basis deteriorated to 11.66% in FY22 as against 17.76% in FY21 majorly on account of increase in raw material cost which constituted 25% of total cost of sales in FY22 as against 20% in FY21. Further, MCL had undertaken shutdown of manufacturing plant in Sep’21 for annual maintenance of plant which was deferred due to covid-19. This again resulted in increase in repair cost and higher consumption of stores and spares thereby further pulling down the PBILDT margin.

On a combined basis, during Q1FY23, the company reported PBILDT of Rs 30.30 crore on TOI of Rs 229.61 crore.

Comfortable capital structure and debt protection metrics

On a combined basis, the capital structure continued to remain comfortable with the absence of debt in Topcem and no term debt obligations in MCL. The overall gearing remained stable at 0.11x as on March 31, 2022 as against 0.09x as on March 31, 2021. TD/GCA also remained stable at 0.46x in FY22 as against 0.43x in FY21. However, the interest coverage ratio declined from 16.33x in FY21 to 11.49x in FY22 on the back of substantial decline in operating profit as against stable finance cost.

Government’s thrust on developing infrastructural activities in the North Eastern Regions

The government has taken several initiatives to boost the infrastructural activities in the Northeastern Regions (NER) of India. Northeast Road Sector Development Scheme (NERSDS) was launched in FY15-16, that has been driving strategic projects for roads and bridges. In addition to this, several new railway projects have been sanctioned for in railway budget. The government is also taking other initiatives viz. road development, telecom development, etc. to develop NER. India and Japan have joined hands for infrastructure development in India's Northeast states and are also setting up an India-Japan Coordination Forum for Development of Northeast to undertake strategic infrastructure projects for the region (source IBEF.org). All these in turn are expected to increase the demand for cement going forward in the region.

Key Rating Weaknesses

Volatility in input and finished goods prices

MCL has captive limestone & shale mines and 10 MW coal based CPP. The company meets its requirement of coal in a mix of purchases from open markets and from coal linkages. However, partial dependence on open markets exposes the company to the risk of price fluctuations. This apart, the freight cost also forms one of the major cost components (around 32% of the total cost) owing to transportation of clinker to TI and cement to the markets. Freight costs 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 the competition from the other established groups in the North East region. 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.

Competition from established players in the North East region

Although MCL is one of three major cement producers in the north-east region, however; the company faces intense competition from other established players in this region.

Risk of capital withdrawal in TI due to partnership nature of its constitution

TI is a partnership firm, which subjects it to risk of capital withdrawal. However, the firm has Nil debt repayment obligations. The management has articulated that the partners of Topcem India had withdrawn profits in the past in the absence of major capex.

The management has further reiterated that it will restrict withdrawal in case of major capex. Further, the partners are committed to infuse liquidity whenever required.

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.

Update on upcoming project

MCL is in the process of setting up a Waste Heat Recovery Based (WHRB) power plant with installed capacity of 6.5 MW. The project cost is estimated at 100 crore which the company proposes to fund entirely out of internal accruals. The plant is expected commence operations in July'23 post which the dependence of MCL on external sources of power are expected to reduce.

Industry Outlook

Growth in India's cement sector has seen a strong bounce back in FY22. The year closed with a growth of 20%, reaching an all-time high, after witnessing a decline of 11% in FY21. The jump was on account of the government's infrastructure push via various schemes and allocations towards the creation of hard assets and a low base effect. This, coupled with pent-up demand, has led to the reversal in the muted trend in volumes.

Owing to strong momentum in housing, infrastructure, and industrial development, the cement industry in India is set to see an upswing in demand in FY23. CareEdge Research believes the industry is likely to move at high single-digit growth on account of government thrust for infrastructure and strong traction in capital expenditure. Various initiatives by the government along with several MSME schemes are set to propel capital expenditure from private players. While demand is likely to remain strong in FY23, headwinds arising out of rising cost pressure could create some stress on the profitability of cement companies. Resultant price hikes by cement producers will become evident and might sustain in the near term. However, due to the competitive nature of the industry, the magnitude of the price hikes driven by cost pressure remains to be seen.

Liquidity: Adequate

The liquidity position of the company is adequate marked by combined GCA of Rs.107.74 crore in FY22 as against nil term debt obligation. Going forward, the group has to term debt repayment obligations in the projected period as well. The average utilization of fund based working capital facilities stood moderate at ~49% during the last 12 months ended Oct'22. Further, there are no working capital limits in TI.

Analytical approach- Combined

CARE has taken a combined view of MCL and TI as they are in same industry with operational linkages, have a common management and finance team. Furthermore, there are inter-company sales/purchases which also reflect the business linkage.

Applicable criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology – Cement Industry
Financial Ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non- financial sector entities
Consolidation

About the Company

Incorporated in June 2003 and promoted by four businessmen of North-East India, Meghalaya Cements Limited (MCL) commenced its operations in April 2006. The company is involved in manufacturing of cement with an installed cement capacity of 8.58 lakh tpa, clinker capacity of 8.58 lakh tpa and a captive power plant (CPP) of 10 MW all of which are located in Jaintia Hills, Meghalaya. MCL sells cement [both Portland Pozzolana Cement (PPC) and Ordinary Portland Cement (OPC)] under the brand name of 'TOPCEM'. Besides selling cement, the company also sells clinker to its group firm TI. TI, is engaged in manufacturing of the cement with a grinding capacity of 6.60 lakh tonne p.a. at Guwahati, Assam. The manufacturing unit of TI commenced its operations in Nov 2011. MCL has a 4% profit share as a partner in TI.

Brief Financials (₹ crore)-Combined	FY21 (UA)	FY22 (UA)	Q1FY23 (UA)	H1FY23 (UA)
Total operating income	745.45	833.02	229.61	NA
PBILDT	132.40	97.14	30.30	NA
PAT	74.04	57.53	20.50	NA
Overall gearing (times)	0.09	0.11	NA	NA
Interest coverage (times)	16.33	11.49	16.38	NA

UA: Unaudited; NA: Not Available

The audited standalone financials of MCL and TI have been combined by the CARE Analytical Team

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	125.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	15.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	125.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Feb-22)	1)CARE A+; Stable (08-Feb-21) 2)CARE A+; Stable (01-Apr-20)	1)CARE A+; Stable (17-Apr-19) 2)CARE A+; Stable (02-Apr-19)
2	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1+	-	1)CARE A1+ (07-Feb-22)	1)CARE A1+ (08-Feb-21) 2)CARE A1+ (01-Apr-20)	1)CARE A1+ (02-Apr-19)

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

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	Non-fund-based - ST-BG/LC	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 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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