

Mangalam Cement Limited

March 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	581.64 (Reduced from 646.09)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	337.00 (Enhanced from 220.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	50.00	CARE A1+	Assigned
Commercial paper	75.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to bank facilities and instruments of Mangalam Cement Limited (MCL) take into account the MCL's enhanced scale of operations on the back of volume growth supported by strong demand witnessed in its key regions and also its comfortable financial profile as reflected by reduction in total debt levels of the company and MCL's adequate liquidity position. CARE Ratings Limited (CARE Ratings) takes into account the input cost headwinds which will affect the profitability in FY23 and shall moderate the solvency indicators of MCL but with likely ease in the cost pressures this shall improve going forward. The ratings also draw strength from MCL's operating efficiency arising out of backward integration through availability of limestone reserves and captive power plants, cost optimization offered by the WHRS plant, split units of the project and proximity of the project to various raw material sources.

The rating also factors in the promoter's experience coupled with long & established track record of the group, established brand with concentration in the northern region, strong distribution network, favourable trade vs non-trade sales mix of the company and eligibility for subsidies and rebates from various state governments. The ratings take into cognizance the completion of enhancement in clinker capacity by 0.3 MTPA in Morak as well as amalgamation of Mangalam Timber Products Ltd (MTPL) with MCL.

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, cyclicality of the cement industry and limited ability of the cement players to hike prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operation leading to increase in total operating income (to greater than ₹2,000 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 5.0x) on a sustained basis.

Negative factors

- Lower-than-envisaged profitability leading to decline in PBILDT interest coverage going below 2.00x on sustained basis
- Any further large-scale debt-funded capex leading to deterioration in capital structure.

Analytical approach: Standalone

Outlook: Stable

Stable outlook for MCL reflects its likelihood to maintain its current operating performance over a medium term on the back of healthy topline growth pursuant to the robust demand experienced by the cement industry. Furthermore, with reduction in the prices of coal and pet coke, the operating profitability is also expected to improve sequentially and with no major capacity expansion plans in medium term, MCL's credit profile is expected to remain healthy.

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

Key strengths

Adequate backward integration and cost optimization

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 11.62% (PY: 12%) of the company's limestone requirement was procured from open market in FY22. The company has also started procuring limestone from a nearby mine in Chittorgarh, which provides some cost saving going forward on the raw material front.

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 11 MW WHRS plant in Kota ensuring continuous supply of power at competitive rates. In FY22 the captive power sources catered to about 83.4% (PY:85%) of the company's power requirement in FY22 thereby reducing the dependence on grid. However in 9MFY23, 26.21% of the power requirement was procured from grid, as power generation from captive sources would have been comparatively expensive pursuant to the steep increase in the prices of coal and pet coke. 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 the fixed cost of around ₹1.5 crore per annum). This shall aid the cost optimization going forward for MCL.

Furthermore, 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 to the extent of around 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, partly from captive power plant of MCL and partly from a UP state's power plant. Furthermore, 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.

Established brand with concentration in the northern region and favourable sales mix

MCL was incorporated in 1976 and commenced its business in 1977. The company sells cement under the brand name 'Birla Uttam Cement' which is well recognized in majorly in the northern and central markets. Northern and central region contributed around 93% of the total sales in FY22 and 9MFY23. Rajasthan & Uttar Pradesh forms the major market with the contribution of about 75%. Going forward, CARE Rating expects the demand in the northern and the central region to be healthy as these markets are expected to hugely benefit from the proposed metro projects, the upcoming highway projects, proposed smart cities dedicated freight corridor and Pradhan Mantri Awas Yojna (Gramin). The infrastructure projects announced by the Central and State Government in these regions coupled with expected private sector investments, will act as tail wind to the players operating in these markets and also improve their capacity utilisation.

The company generally produces two grades of cement, viz., 'Pozzolona Portland Cement' (PPC) and 'Ordinary Portland Cement' (OPC). PPC is manufactured with around 32% fly ash in the blend and OPC is manufactured without fly ash and with around 94% clinker in the blend. The blended cement constituted 66% of the cement sales volume and the OPC constituted of 34% of the volume in FY22 and 9MFY23. Higher proportion of blended cement aids the profitability of the company as it enjoys higher profit margin.

Topline growth driven by robust demand leading to improved capacity utilization

During FY22, the company witnessed a healthy growth in the sales volume of 18% with sales volume increasing to 3.35 million ton. The volume improvement clocked by the company was significantly better than the industry average of around 8.7% in FY22. Owing to the improved sales volume, the revenue marked a growth of around 20% and stood at ₹1,566 crore compared to ₹1,305 crore in FY21. The growth in sales volume is aided by increasing spend on infrastructure projects by the government and a rebound in the real estate cycle post witnessing a steep slump during pandemic. The gross sales realisation also improved from ₹4,552/t in FY21 to ₹4,637/t in FY22.

The growth momentum continued in 9MFY23, with MCLs' sales volume growing by 8% y-o-y from 2.39 million ton to 2.57 million ton. During the same period, the company's cement sales realisation stood at ₹ 5,116/t.

Owing to the robust demand scenario, the capacity utilisation (CU) of MCL for FY22 and 9MFY23 stood at 84% and 86% respectively which is a significant improvement over the CU of 71% in FY21. 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. The enhancement in the clinker capacity has also led to increase in the cement capacity by 0.4 million ton and the cement capacity now stands at 4.4 million ton.

The CU is expected to remain at healthy level of around 92% in Q4FY23 as the same is a seasonally stronger quarter for cement players across markets and the strong tail winds experienced by the players. Going forward CareEdge expects MCL to continue to have higher than industry average capacity utilization and MCL to benefit from the strong cement demand outlook on the back of infrastructure push by the government.

Capital structure expected to remain comfortable

Capital structure of the company remained moderate with adjusted overall gearing ratio at 0.88x as on March 31, 2022, which has marginally improved as compared to 0.96x as on March 31, 2021. The marginal improvement in the gearing is on account of marginal reduction in total outstanding debt. 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.

The debt protection metrics i.e. Net Debt/PBILDT and interest coverage ratio of the company have declined marginally from 1.47x and 3.66x in FY21 to 1.62x and 3.43x in FY22 respectively, mainly on account of reduction in the PBILT due to increasing power and fuel expense. In the absence of any large expansion programme, CARE Ratings expects net leverage and interest coverage to remain comfortable in FY23 despite the cost headwinds and rise in interest rates.

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. Being a part of the B.K. Birla group, MCL enjoys financial flexibility from the group 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. After the demise of Basant Kumar Birla, the company is being managed under the leadership of Vidula Jalan.

Key weaknesses

Exposure to volatility in input costs

The company is exposed to commodity price risk arising out of fluctuation in prices of raw materials (gypsum, iron ore, fly ash and iron slag) and fuel (coal and pet coke). Coal (indigenous and international) is used for both the power generation to run its plants and as fuel for kilns. Since Q3FY22, there has been tremendous increase in the energy cost. Initially it was on account of pent-up demand after the world started opening up post multiple COVID-19 waves and vaccinations. However, the costs exacerbated with start of Russia-Ukraine war. Though, the coal and pet coke prices have slightly moderated from its peak, the same remain highly elevated.

Owing to the steep rise in the prices of both coal and pet coke, for FY22 the power and fuel expense per ton to increase from ₹ 1047/t to ₹ 1291/t and further increased to ₹ 1785/t for 9MFY23.

Reduced profitability owing to cost headwinds

During FY22, the profitability of the company moderated with PBILDT at ₹219 crore as opposed to ₹246 crore in FY21. The PBILDT margin of the company reduced steeply from 18.87% in FY21 to 13.98% in FY22. The deterioration was mainly on account of steep increase in the power and fuel expenses. However, owing to commencement of operations of the WHRS, the deterioration in the profitability was controlled. Consequently, the PBILDT/t decreased by 25% from ₹867/t to ₹ 654/t.

For 9MFY23 the PBILDT/t further reduced to ₹398/t, due to an unprecedented spurt in the prices of coal and pet coke which was exacerbated by the kiln remaining shut during December 2022 for maintenance purposes.

Going forward, the company is expected to continue its focus on improving its internal efficiencies which along with support from the recent moderation in prices of pet coke and coal shall improve the operating profitability sequentially in Q4FY23 and going forward.

In November 2021, the National Company Law Tribunal approved the merger of Mangalam Timber Products Limited (MTPL) with MCL (effective date April 01, 2019). The merger of MTPL has been a drag on the profitability of MCL as it has been losses owing to significant underutilisation of the capacity. MTPL incurred a loss of ₹20.66 crore in FY22. The management of MCL is in the process to increase the capacity utilisation and turn the operations of the timber unit profitable.

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.

Cyclicality of the cement industry

The 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

According to CARE Ratings, the current upcycle in infrastructure and real estate is expected to significantly boost cement demand. CARE Ratings predicts growth in cement volume by 8-9% in FY23, reaching 380-385 million tonnes (MT), and by FY25-end, reaching 440-450 MT. The macros of the cement industry remain stable in the long term, driven by demand from the housing sector, upcoming infrastructure projects as well as generous rural demand. The capex spree by the government on infrastructure and housing spend in the wake of the 2024 general election paints an encouraging picture of cement demand. The private capex is also expected to pick up gradually lending further support on the demand front. The cement players have also responded enthusiastically by announcing huge capacity addition over FY23- FY25. With several companies looking to commission capacities in the next two years, the industry's pricing may come under some pressure.

In the current fiscal as well, the players are walking on a tightrope, and they have not been able to offset the higher input costs through hikes in cement prices. Though price hikes and absorption of the same are imminent for the sector's profitability, but so far players have not been able to take meaningful hikes. Hence, operating leverage driven by strong volume uptake and continuous focus of the players to improve cost efficiency are expected to aid margin in the medium term for the sector.

Liquidity: Adequate

The liquidity position of MCL is adequate with sufficient cash accruals, adequate cash flows, unused working capital limits and minimal capex requirements. However, due to unabated and prolonged cost inflation as witnessed in the prices of coal and pet coke rising to life time high resulted in deterioration the profitability of all cement players including MCL. Owing to deterioration in profitability the cash accruals for 9MFY23 were moderated and stood at ₹59 crore as against ₹119 crore for 9MFY22. However, the accruals generated during 9MFY23 along with the existing liquid balance with MCL remained sufficient to meet the scheduled debt repayment obligation of ₹52 crore until January 31, 2023. Furthermore, during 9MFY23 the company also prepaid its certain debt obligation and refinanced some at lower interest rates. The average fund-based utilization of MCL for 12 months ending January 31, 2023 has been at 74% (PY: 71%). As part of the liquidity policy, the management keeps liquid balances at all times to meet contingencies. The liquid balance stood at ₹273 cr as on March 31, 2022 and ₹214 crore as on December 31, 2022 mainly in form of mutual funds and bank balances. Going forward, with moderation witnessed in the input cost and steps taken by to improve its operating efficiency, MCL is expected to generate sufficient accruals to meet its debt repayment obligations of ₹85 crore and ₹90 crore in FY24 and FY25 respectively.

ESG profile:

The cement manufacturing industry is energy and fuel intensive and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to health and safety effects of its operations on the society and its employees and changing preference of the end user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process. The annual report for FY22 highlights the below initiatives undertaken by the company:

Environmental:

- The company consumes alternative materials like fly ash, chemical gypsum, phospho-gypsum, Kota Stone Slurry etc., which helps in conserving natural raw materials used for the cement production;
- Installation of De NOx system for the control of NOx emissions;
- Installation of wind power plant for increasing share of renewable power in captive power consumption;
- Utilization of Sewage Waste after proper treatment in Sewage Treatment Plant (STP);
- Installation of Organic Waste digester for treatment & disposal of household waste in colony
- Replacement of existing clinker cooler with new high efficiency IKN cooler in our Unit- II Kiln. Saving achieved in thermal energy is 31 Kcal/Kg of Clinker

Social

During FY22, the company has spent ₹1.86 crore towards various initiatives which includes infrastructural support to nearby villages and rural development, promoting education and distributing sewing machine and providing tailoring classes to empower women.

Governance

The company's philosophy on Corporate Governance focuses on ethical governance practices. This includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the company is an important part of Corporate Governance philosophy of the company. The company has complied with the requirement of Corporate Governance as laid down under the Listing Regulations

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cement](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction Materials	Cement & Cement Products	Cement & Cement Products

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 4.4 MTPA, 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). The merger of Mangalam Timber Products Limited (MTPL) with MCL is now completed with the approval of National Company Law Tribunal received in November 2021 (effective date April 01, 2019). During FY22, MTPL incurred a loss of ₹20.66 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Total operating income	1,305	1,566	1,342
PBILDT	246	219	103
PAT	93	78	2
Overall gearing (times)	0.96	0.89	NA
Interest coverage (times)	3.66	3.43	2.00

A: Audited; UA: Unaudited' NA: Not Available, Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of the 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
Commercial Paper- Commercial Paper (Standalone)		-	-	7-365 days	75.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	225.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	30-09-2026	83.84	CARE A+; Stable
Fund-based - ST-Working Capital Demand loan		-	-	-	50.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	337.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term		-	-	30-09-2026	272.80	CARE A+; Stable

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	225.00	CARE A+; Stable	1)CARE A+; Stable (07-Apr-22)	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)
2	Term Loan-Long Term	LT	272.80	CARE A+; Stable	1)CARE A+; Stable (07-Apr-22)	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	337.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (31-Dec-20)	1)CARE A+; Stable / CARE A1 (23-Dec-19)

					(07-Apr-22)	(07-Mar-22)		
4	Fund-based - LT-Term Loan	LT	83.84	CARE A+; Stable	1)CARE A+; Stable (07-Apr-22)	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)
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)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (31-Dec-20)	1)CARE A+; Stable (23-Dec-19)
7	Fund-based - ST-Working Capital Demand loan	ST	50.00	CARE A1+				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Working Capital Demand loan	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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.

Contact us

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About us:

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