

Maithan Ceramic Limited

December 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	7.80	CARE A-; Stable	Revised from CARE BBB+; Positive
Long-term / Short-term bank facilities	80.00	CARE A-; Stable / CARE A2+	Revised from CARE BBB+; Positive / CARE A2
Short-term bank facilities	126.00	CARE A2+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Maithan Ceramic Limited (MCL) takes into account the improvement in financial performance of the company during FY23 (FY refers to the period April 1 to March 31) and H1FY24 (H1 refers to the period April 1 to September 30) marked by increase in the scale of operations along with sustenance of operating margins and consequent improvement in capital structure and debt protection metrics.

The total operating income (TOI) of the company grew by around 65% y-o-y in FY23 on the back of increase in sales volume of refractory products driven by high demand from user industries and industry-induced higher sales realizations. Furthermore, profit before interest, lease rentals, depreciation, and taxes (PBILDT) margins improved to 13% in FY23 from 12% in FY22 on account of better absorption of fixed overheads given the increase in scale of operations. The improvement in margins of the company was also on account of improvement in overall operational efficiency, mainly attributable to modernization of production process leading to better quality products with improved precision higher realization. Moreover, the capital structure and debt protection matrices of the company have also improved, which is marked by improvement in the overall gearing and total debt/gross cash accruals (TD/GCA) in FY23. The ratings continue to derive strength from the long track record and extensive experience of the promoters in the refractory industry and reputed clientele leading to low counterparty risk.

The ratings, however, are constrained by working capital intensive nature of operations given the requirement to maintain high variety of raw material leading to stretched inventory cycle, substantial dependence upon the fortunes of inherently cyclical iron and steel industry, fragmented and competitive nature of the refractory industry, profitability being susceptible to volatility in raw-material prices and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- The ability of the company to increase its scale of operations above ₹750 crore with operating margins (i.e., PBILDT) at around 12% on a sustained basis.
- Improvement in capital risk profile marked by total outside liabilities (TOL) to tangible networth (TNW) below 0.75x on sustained basis.

Negative Factors

- Moderation in TOI below ₹250 crore with operating margins of below 9% on a sustained basis.
- Any un-envisaged incremental debt funded capital expenditure leading to deterioration in the capital structure and debt coverage indicators of the company from the current levels.
- Stretching of operating cycle beyond 150 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook assigned to the long-term rating of the company is based on the ability of the promoters to maintain its financial risk profile, marked by the sustenance of scale of operations and steady profitability levels while maintaining the capital structure and debt protection indicators at around the current levels.

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

Detailed description of the key rating drivers:

Key strengths

Improvement in the financial performance in FY23 and H1FY24

The TOI of the company grew by around 65% y-o-y in FY23 to ₹438 crore on the back of increase in sales volume of refractory products driven by high demand from user industries and industry-induced higher average sales realizations. Furthermore, PBILDT margins improved to 13% in FY23 from 12% in FY22 on account of better absorption of fixed overheads given the increase in scale of operations. The improvement in margins of the company were also on account of improvement in overall operational efficiency, mainly attributable to modernization of production process leading to better quality products with improved precision at the lower cost and higher realization. Accordingly, PBILDT level increased by around 81% y-o-y to around ₹58 crore in FY23 from ₹32 crore in FY22.

In H1FY24, the company has earned PBILDT of around ₹23 crore on TOI of ₹186 crore.

Going forward, CARE Ratings Limited (CARE Ratings) expects the scale of operation as well as profitability margins to remain range bound with downward bias due to anticipated moderation in average sales realisations and the largely stable sales volumes.

Improvement in capital structure and debt coverage indicators in FY23

The capital structure of the company improved during FY23 marked by improvement in overall gearing to 0.92x as on March 31, 2023, vis-à-vis 1.65x as on March 31, 2022. Improvement in the overall gearing was attributable to largely stable total debt levels and increase in tangible networth due to accretion of profit to reserves. CARE Ratings has considered preference shares of around ₹.23.6 crore as debt for analysis purpose. This apart, debt protection metrics also improved in FY23 on account of higher gross cash accruals and stable total debt levels. Consequently, total debt to gross cash accruals (TD/GCA) stood at 1.97x (P.Y.: 5.22x) in FY23.

In FY24, the company is planning a capital expenditure (capex) plan of around ₹20 crore (over and above regular capex of ₹15 crore to ₹16 crore) to add a new product line at intermediate level or to add additional capacity to basic/alumina plant. These capex plans are modular and gradual in nature and the same will be entirely funded from internal accruals.

Going forward, CARE Ratings expects the capital structure to remain satisfactory in the ensuing years as there are no major debt plans barring working capital limits as articulated by the management.

Reputed clientele

MCL caters to a reputed client base comprising of large players in the iron and steel and glass industries with strong credit profiles, which mitigates the counter party risk to some extent. Furthermore, repeat orders from such clients indicates satisfactory product delivery by the company.

Experienced promoters with long track record of operations

The promoters- JP Agarwalla and family, have been engaged in the refractory manufacturing business for more than five decades. The group enjoys a good standing in the organized refractories segment in the iron and steel industry and the highly technical glass industry.

Key weaknesses

Working capital intensive nature of business

MCL's business is working capital intensive marked by high average inventory period and high credit period extended to customers. Inventory level has historically been on the higher side as a very high amount of inventory gets blocked in the form of raw material as the company is required to maintain very high variety of raw materials, most of which are imported and are required to be maintained in a substantial quantity to ensure smooth operations at the plant. Furthermore, the requirement of non-fund-based limits is also higher owing to the nature of business, which involves use of Letter of Credit (LC) for import of raw materials.

In FY23, despite decrease in creditors' days, the operating cycle of the company improved to 125 days from 139 days in FY22 on the back of better cash collection efficiency and better management of inventory. The working capital cycle is expected to remain range bound at around current levels going ahead.

Profitability susceptible to volatility in raw material prices and forex fluctuation

The raw material [major ones being aluminium oxide (alumina), magnesium carbonate (magnesite), bauxite, sillimanite and clay] expense constitutes a substantial portion of the total cost of sales. Given the raw-material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to volatility in prices of raw-material. Furthermore, the company's profitability is exposed to forex fluctuation risk as imported raw-material forms around 65% to 69% of its total requirement and the company usually does not hedge its foreign exchange exposure. However, the company has not reported any major forex losses in the last 3-4 years owing to even spread of purchases during the year.

Fragmented and competitive nature of the refractory industry

The refractory industry consists of few organised and large number of unorganised players. The industry faces stiff competition from the unorganised players. With modernisation of the plant, MCL is poised to compete well with the large players and mitigates the competition from unorganised players to an extent.

Substantially dependent upon the fortunes of inherently cyclical iron and steel industry

MCL is exposed to the inherently cyclical iron and steel industry as it derives most of its revenues from sales to the iron and steel companies. Although the outlook of the steel industry remains favourable at present, MCL is exposed to the volatility imbedded in the nature of the industry.

Liquidity: Adequate

The liquidity position of the company remained adequate marked by healthy gross cash accruals (GCA) of around ₹52 crore vis-à-vis negligible debt repayment obligation (₹0.07 crore) in FY23 and moderate utilization of working capital limit, i.e. around 49%, in the last 12 months ending October 31, 2023; supported by cash and cash equivalent of ₹6.56 crore (including ₹3.47 crore of margin money) as on March 31, 2023.

Going forward, the liquidity position of the company is expected to remain adequate on the back of expected healthy GCA to meet the low debt repayment obligations and internal accrual needed to finance the proposed capex in FY24.

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](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Electrodes & Refractories

MCL, incorporated in 1963, is engaged in manufacturing of refractory bricks and related items with a capacity of 72,000 MTPA of refractory bricks and 67,500 MTPA of mortar, grog and processed materials at Chirkunda, Dhanbad dist. Jharkhand. MCL has ISO 9001-2000 accreditation for its manufacturing facility. MCL products are mainly used in the steel industry.

MCL was originally promoted by Basant Kumar Agarwalla of Dhanbad (Jharkhand). In FY17, the business was divided between the three brothers of Agarwalla family of Dhanbad (Jharkhand). The shares of MCL were transferred to Jagdish Prasad Agarwalla family the younger brother of B. K. Agarwalla. The day-to-day operations of MCL are managed by Jagdish Prasad Agarwalla (Chairman) along with support from his two sons - Vishal Agarwalla (MD) and Aditya Agarwalla.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	265.43	437.73	184.65
PBILDT	32.45	57.52	22.93
PAT	16.59	43.87	11.84
Overall gearing (times)	1.65	0.92	NA
Interest coverage (times)	10.77	8.23	8.62

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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: 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
Fund-based - LT/ ST-CC/Packing credit	-	-	-	-	80.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	-	126.00	CARE A2+
Term loan-Long term	-	-	-	December, 2026	7.80	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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	-	-	-	-	1)Withdrawn (11-Oct-21)	1)CARE BBB+; Negative (05-Nov-20) 2)CARE BBB+; Negative (04-Sep-20) 3)CARE BBB+; Stable (03-Apr-20)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (10-Jan-22)	1)CARE A2 (05-Nov-

							2)CARE A2 (11-Oct-21)	20) 2)CARE A2 (04-Sep- 20) 3)CARE A2 (03-Apr- 20)
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE BBB+; Negative / CARE A2 (11-Oct-21)	1)CARE BBB+; Negative / CARE A2 (05-Nov- 20) 2)CARE BBB+; Negative / CARE A2 (04-Sep- 20) 3)CARE BBB+; Stable / CARE A2 (03-Apr- 20)
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE BBB+; Negative / CARE A2 (11-Oct-21)	1)CARE BBB+; Negative / CARE A2 (05-Nov- 20) 2)CARE BBB+; Negative / CARE A2 (04-Sep- 20) 3)CARE BBB+; Stable / CARE A2 (03-Apr- 20)
5	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE A2 (11-Oct-21)	1)CARE A2 (05-Nov- 20) 2)CARE A2 (04-Sep- 20) 3)CARE A2 (03-Apr-

								20)
6	Fund-based - LT- Working capital demand loan	LT	-	-	-	-	1)Withdrawn (11-Oct-21)	1)CARE BBB+; Negative (05-Nov- 20) 2)CARE BBB+; Negative (04-Sep- 20)
7	Fund-based - LT/ ST-CC/Packing credit	LT/ST*	80.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Positive / CARE A2 (23-Dec- 22)	-	-
8	Non-fund-based - ST-BG/LC	ST	126.00	CARE A2+	-	1)CARE A2 (23-Dec- 22)	-	-
9	Term loan-long term	LT	7.80	CARE A-; Stable	-	1)CARE BBB+; Positive (23-Dec- 22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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	Fund-based - LT/ ST-CC/Packing credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

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.

Contact us

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About us:

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