

## Mangalam Cement Limited

March 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	530.31 (Reduced from 581.64)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	410.00 (Enhanced from 337.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	75.00 (Enhanced from 50.00)	CARE A1+	Reaffirmed
Commercial paper	75.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of ratings assigned to bank facilities and instruments of Mangalam Cement Limited (MCL) take into account MCL's healthy scale of operations on the back of healthy 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) has noted the input cost pressures mainly caused by the coal and pet coke prices, in the industry in FY23 which also subdued the profitability of many players and the moderation of the same in 9MFY24 has subsequently improved the operating profitability of the company. Ratings also draw strength from MCL's operating efficiency arising out of backward integration and cost optimisations arrived through availability of limestone reserves, captive power plants, waste heat recovery system (WHRS) plant, split units of the project and proximity of the project to various raw material sources.

Ratings also factor in MCL's brand presence in the northern and central regions, strong distribution network, favourable trade against non-trade sales mix of the company and eligibility for subsidies and rebates from various state governments.

However, ratings are constrained by exposure of MCL to competitive pressure given its geographical concentration and modest scale of operation, volatility in input and finished goods prices, partial procurement of high-cost limestone from the open markets, cyclical nature 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

- Improving scale of operation leading to increase in total operating income (to greater than ₹2,000 crore) and profitability (profit before interest, lease rentals, depreciation and tax (PBILDT) margin greater than 18%) on a sustained basis.
- Improving 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
- Large-scale debt-funded capital expenditure (capex) leading to deteriorating capital structure.

### Analytical approach: Standalone

#### Outlook: Stable

The rating outlook "Stable" indicates the expected sustenance of its moderate competitive position and operating efficiency in the cement business along with healthy financial risk profile. With no significant plans for capacity expansion in the medium term, MCL is expected to maintain a healthy credit profile.

### Detailed description of the key rating drivers:

#### Key strengths

##### 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' and 'Mangalam ProMaxX' which is well recognized majorly in the northern and central markets. Northern and central region contributed around 93% of the total sales in FY23 and 9MFY24, where Rajasthan and Uttar Pradesh form the major

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

market contributing around 75-78%. Going forward, CARE Ratings expects the demand in the northern and the central region to be healthy from rural housing and infra projects, especially in Uttar Pradesh on the back of government spending and a pick-up in construction.

The company produces two grades of cement, viz., 'Pozzolona Portland Cement' (PPC) and 'Ordinary Portland Cement' (OPC). The blended cement constituted 66% of the cement sales volume in FY23 and 70% in 9MFY24 whereas the OPC constituted remaining 34% and 30% in FY23 and 9MFY24 respectively. Higher proportion of blended cement aids the profitability of the company as it enjoys higher profit margin. MCL has established an extensive network of 51 sales promoters, 1,104 dealers and 2,791 retailers for marketing and selling the cement to its end-customers.

The company is also eligible to avail certain subsidy and exemptions given by Government of Rajasthan and U.P. on account of expansion projects undertaken by it in both 2014 and September 2016 for a period of 10 years ending 2027.

### **Topline growth driven by healthy demand leading to improving capacity utilization**

In FY23, the company witnessed a healthy growth in the total operating income (TOI) of 15% from ₹1,566.05 crore to ₹1,801.59 crore. The growth in TOI was backed by moderate improvement in sales volume by 3% and increase in the blended sales realisation by 11% from ₹4668/t to ₹5180/t. Owing to the healthy demand scenario, the capacity utilisation (CU) of MCL for FY23 stood at 79% (PY: 76%). In 9MFY24, the company reported TOI of ₹1,307.48 crore (PY: ₹1,371.1 crore on a Y-o-Y basis) while the capacity utilisation stood at 77%.

The CU is expected to remain at a healthy level in the range of 80-85% over the medium term as the demand scenario is expected to be healthy. Going forward CARE Ratings expects MCL to continue to have healthy capacity utilization levels as it operates in demand-accretive regions.

In November 2021, the National Company Law Tribunal approved the merger of Mangalam Timber Products Limited with MCL, effective date April 01, 2019. The timber business officially commenced operations from October 18, 2023 onwards and since then, production levels have been on the rise. The company has already absorbed the fixed costs as the entire produce is being promptly sold on an advance sales basis, eliminating the need for credit. The profitability generated from the timber business will be a key monitorable as currently ₹ 10-15 crore of profit is anticipated in the medium term.

### **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. The captive mines have sufficient proven reserves as on December 31, 2023, of 154MT as against mined quantity of 2.63MT in FY23 and 2.13MT in 9MFY24.

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: 11.62%) of the company's limestone requirement was procured from open market in FY23 and 9MFY24. The company has also started procuring limestone from a nearby mine in Chittorgarh, which provides some cost saving on the raw material front.

The 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. Apart from limestone and fly ash which constitute 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.

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 FY23 and 9MFY24, the captive power sources catered to about 71.55% (PY: 83.4%) and 74.68% (PY: 73.79% on a Y-o-Y basis) respectively, of the company's power requirement. The availability of self-sources of power ensures continuous supply of power at competitive rates.

### **Capital structure expected to remain comfortable**

Capital structure of the company remained moderate with adjusted overall gearing ratio at 0.85x as on March 31, 2023, which has slightly improved as compared to 0.89x as on March 31, 2022. The marginal improvement in the gearing is on account of reduction in total outstanding debt, however, increase in the short-term borrowings in order to meet daily working capital requirements. Going forward, it is expected that the gearing levels will further decline with no major debt-funded capex planned and gradual repayment of term debt.

The debt protection metrics, Net Debt/PBILDT and interest coverage ratio of the company have deteriorated from 1.73x and 3.43x in FY22 to 2.85x and 2.25x in FY23 respectively, mainly on account of contraction in the operating profitability due to the cost pressures. However, the improving profitability in 9MFY24, led to improving PBILDT interest coverage to 3.48x. Subsequently, on account of scheduled debt repayments and no envisaged debt-funded capex, CARE Ratings expects the debt protection metrics to remain comfortable and further improve in the medium term.

## 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. While pet coke is mostly imported, for coal the company is relying on both domestic and international sources. Coal linkages catered to around 66% of the coal requirement of captive power plant (CPP) in FY23 and 9MFY24 and benefits the company by reducing the cost as the average price/ ton in FY23 and 9MFY24 was less than coal/fuel purchased from other sources by 25% and 23% respectively. However, on an overall basis, the average coal price per ton has increased in FY23 and further in 9MFY24. Dependence on open markets for sourcing majority of its coal requirement exposes the company to the risk of price fluctuations.

In FY23, the price of input materials rose sharply which adversely affected the profitability of the company from 13.98% in FY22 to 8.21% in FY23. The total cost per tonne increased by 19% in FY23, largely on account of high coal and pet coke prices. However, in 9MFY24, the softening of coal and pet coke prices have aided in recovering the PBILDT of the company back to 13.47% in 9MFY24 (PY: 9.60% on a Y-o-Y basis).

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.

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

The company operates majorly in Rajasthan, Uttar Pradesh and 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.

### Liquidity: Adequate

The liquidity position of MCL remains adequate marked by gross cash accruals of ₹98 crore and cash and cash equivalents of ₹218.92 crore as on December 31, 2023. As against these, the company had total repayment obligations of around ₹80 crore in FY24 out of which only ₹15 crore remains for Q4FY24. The cash accruals are expected to remain adequate against the scheduled debt repayments in the range of ₹ 80-90 crore for next two years. The past 12 months, average fund-based working capital utilization of MCL ended December 2023 rose (specifically for the period between January 2023 to April 2023) and stood at 81.7% due to the presence of high cost of raw materials during the period.

As part of the liquidity policy, the management keeps liquid balances at all times to meet contingencies. Going forward, with moderation witnessed in the input cost and steps taken by to improve its operating efficiency the liquidity position is expected to remain comfortable in the medium term.

### Assumptions/Covenants: NA

### Environment, social, and governance (ESG) risks: NA

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

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[Short Term Instruments](#)

[Cement](#)

## 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 Shree Anshuman 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 and OPC. 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). In 9MFY24, the company commenced its operations the profitability generated from the same will be a key monitorable in the medium term.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,566.05	1,801.59	1,307.48
PBILDT	218.96	147.86	176.17
PAT	77.71	17.12	42.44
Overall gearing (times)	0.86	0.83	NA
Interest coverage (times)	3.43	2.25	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:**

NA

**Any other information:**

NA

**Rating history for last three years:** Please refer to 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:** Please refer to Annexure-4

**Lender details:** Please refer to 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-Proposed 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	95.91	CARE A+; Stable
Fund-based - ST-Working Capital Demand loan		-	-	-	75.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	410.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term		-	-	31-09-2026	209.40	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	225.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Mar-23) 2)CARE A+; Stable (07-Apr-22)	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)
2	Term Loan-Long Term	LT	209.40	CARE A+; Stable	-	1)CARE A+; Stable (28-Mar-23) 2)CARE A+; Stable	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)

						(07-Apr-22)		
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	410.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (28-Mar-23) 2)CARE A+; Stable / CARE A1+ (07-Apr-22)	1)CARE A+; Stable / CARE A1+ (07-Mar-22)	1)CARE A+; Stable / CARE A1+ (31-Dec-20)
4	Fund-based - LT-Term Loan	LT	95.91	CARE A+; Stable	-	1)CARE A+; Stable (28-Mar-23) 2)CARE A+; Stable (07-Apr-22)	1)CARE A+; Stable (07-Mar-22)	1)CARE A+; Stable (31-Dec-20)
5	Commercial Paper-Commercial Paper (Standalone)	ST	75.00	CARE A1+	-	1)CARE A1+ (28-Mar-23)	1)CARE A1+ (07-Mar-22)	1)CARE A1+ (31-Dec-20)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (31-Dec-20)
7	Fund-based - ST-Working Capital Demand loan	ST	75.00	CARE A1+	-	1)CARE A1+ (28-Mar-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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	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](mailto:care@careedge.in) for any clarifications.

### Contact us

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### About us:

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