

Maithan Ceramic Limited

November 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	7.15 (Reduced from 7.80)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	80.00	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	126.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Maithan Ceramic Limited (MCL) factor in the company's satisfactory financial performance in FY24 despite decline from FY23, considering lower sales volume of refractory products attributable to lower demand from user industry such as iron and steel industry, steady operating margins and satisfactory capital structure and debt protection metrics. Ratings continue to derive strength from long track record and extensive experience of promoters in refractory industry, which ensures repeat business and reputed clientele leading to low counterparty risk.

However, ratings are constrained by working capital intensive 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 refractory industry, profitability being susceptible to volatility in raw-material prices and foreign exchange fluctuation risk. Ratings also take note of the infusion of funds in its subsidiary in ensuing years.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- The company's ability to increase its scale of operations above ₹750 crore with operating margins (profit before interest, lease rentals, depreciation, and taxation [PBILDT]) at ~12% on a sustained basis.
- Improvement in capital risk profile marked by total outside liabilities to tangible network (TOL/TNW) below 0.75x on a sustained basis.

Negative Factors

- Moderation in total operating income (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 company's capital structure and debt coverage indicators from the current levels.
- Stretching of operating cycle beyond 150 days leading to moderation in liquidity profile on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook assigned to the company's long-term rating is based on the ability of promoters to maintain its financial risk profile, marked by the sustenance of scale of operations and steady operating margins while maintaining the capital structure and debt protection indicators at around current levels. CARE Ratings Limited (CARE Ratings) also notes expected infusion of fund in subsidiary is not expected to result in major deterioration in the MCL's credit risk profile and/or liquidity profile over the near-to-medium term.

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

Detailed description of key rating drivers:**Key strengths****Satisfactory financial performance in FY24 despite decline from FY23, considering lower sales volume of refractory products attributable to lower demand from iron and steel industry**

The company's financial performance remained satisfactory marked by steady TOI despite decline from FY23, considering lower sales volume of refractory products attributable to lower demand from user industry such as iron and steel industry and sustenance of operating margins. As a result, the company's TOI moderated to ₹369 crore in FY24 from ₹437 crore in FY23. Nonetheless, PBILDT margins improved by 118 bps to 14.32% in FY24 from 13.14% in FY23 due to improvement in overall operational efficiency which is attributable to modernisation of production process which enabled the company to produce high quality products with improved precision at lower cost and sourcing of raw materials at competitive prices. PBILDT and gross cash accruals (GCA) stood at ₹53 crore (PY: ₹58 crore) and ₹37 crore (PY: ₹51 crore) in FY24, respectively.

In H1FY25, the company earned TOI of ₹175 crore.

Going forward, CARE Ratings expects the scale of operation and profitability margins to remain range bound.

Satisfactory capital structure and debt coverage indicators in FY24

The company's capital structure continued to remain satisfactory in FY24 marked by improvement in overall gearing to 0.87x as on March 31, 2024, against 0.92x as on March 31, 2023. Improvement in overall gearing was attributable to largely stable total debt level and increase in tangible net worth due to accretion of profit to reserves. CARE Ratings considered preference shares of ~₹23.60 crore as debt for analysis purpose. Also, debt protection metrics continued to remain satisfactory marked by interest coverage and total debt (TD)/GCA of 8.24x (PY: 8.23x) and 3.39x (PY: 2.02x) as on March 31, 2024, respectively.

In FY25 and FY26, the company is planning a capital expenditure (capex) plan of ~₹25 crore to add fused alumina plant and additional capacity of basic/alumina plant. These capex plans are modular and gradual and this will be entirely funded from internal accruals and are entirely contingent upon availability of internal accruals. It is projected that MCL will further extend support in the form of equity/loans and advances of ₹20 to ₹30 crore in the near-to-medium term to a wholly owned subsidiary called Maithan Advanced Materials Limited (MAML). However, the management articulated the company will not avail debt to finance the subsidiary or group entities at all.

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 a reputed client base comprising of large players in iron and steel and glass industries with strong credit profiles, which mitigates the counterparty 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 over five decades. The group enjoys good standing in the organised refractories segment in iron and steel industry and highly technical glass industry.

Key weaknesses**Working capital intensive 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.

The company's operating cycle moderated in FY24 to 182 days from 125 days in FY23 due to stocking of raw material as this was available at competitive rates and its impact is reflecting in the company's financial performance in FY24 as operating margins improved by 118 bps to 14.31% in FY24 from 13.14% in FY23. Additionally, debtors were also higher attributable to delay in receipt of payment from some customers as on balance sheet date. However, debtors reduced to ₹49 crore in April

2024 from peak of ₹83 crore as on March 31, 2024. Going forward, it is expected that the operating cycle will improve in ensuing period.

Profitability susceptible to raw material price volatility and forex fluctuation

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 its prices are volatile, the the company's profitability 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 ~65% to 69% of its total requirement and the company usually does not hedge its foreign exchange exposure. However, the company has not reported major forex losses in the last 3-4 years owing to even spread of purchases.

Fragmented and competitive refractory industry

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 large players and mitigates the competition from unorganised players to an extent.

Substantially depends on fortunes of inherently cyclical iron and steel industry

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

Liquidity: Adequate

The company's liquidity position remained adequate marked by healthy GCA of ~₹37 crore against negligible debt repayment obligation (₹0.67 crore) in FY24 and moderate utilisation of working capital limit, ~54%, in the last 12 months ending September 30, 2024; supported by above unity current ratio as on March 31, 2024.

Going forward, the company's liquidity position is expected to remain adequate, considering expected healthy GCA to meet low debt repayment obligations and internal accrual needed to finance the proposed capex in FY25.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

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 refractory bricks and related items with a capacity of 72,000 metric tonne per annum (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 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). MCL's shares were transferred to Jagdish Prasad Agarwalla, the younger brother of B K Agarwalla. MCL's day-to-day operations are managed by Jagdish Prasad Agarwalla (Chairman) with support from his two sons - Vishal Agarwalla (MD) and Aditya Agarwalla.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	437.73	369.08	175.00
PBILDT	57.52	52.87	NA
PAT	42.73	27.22	NA
Overall gearing (times)	0.92	0.87	NA
Interest coverage (times)	8.23	8.24	NA

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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	7.15	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Oct-21)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE A2 (11-Oct-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	-	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE BBB+; Negative / CARE A2 (11-Oct-21)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	-	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE BBB+; Negative / CARE A2 (11-Oct-21)
5	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (10-Jan-22) 2)CARE A2 (11-Oct-21)
6	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	-	1)Withdrawn (11-Oct-21)
7	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	80.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Dec-23)	1)CARE BBB+; Positive / CARE A2 (23-Dec-22)	-
8	Non-fund-based - ST-BG/LC	ST	126.00	CARE A2+	-	1)CARE A2+ (06-Dec-23)	1)CARE A2 (23-Dec-22)	-
9	Term Loan-Long Term	LT	7.15	CARE A-; Stable	-	1)CARE A-; Stable (06-Dec-23)	1)CARE BBB+; Positive (23-Dec-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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