

## Mangalam Cement Limited

February 19, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	566.98 (468.28)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long/Short-term Bank facilities	175.00 (125.00)	CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)	Reaffirmed
<b>Total</b>	<b>741.98</b> <b>(Rs.Seven hundred forty one and ninety eighth lakhs only)</b>		
Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper	75.00 (75.00)	CARE A1 (A One)	Reaffirmed
Proposed Non-Convertible Debenture	50.00 (250.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed

*Detail of facilities or instrument in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Mangalam Cement Limited (MCL) continues to draw comfort from the rich experience of the promoters, long & established track record of the B.K. Birla group, established brand though majorly concentrated in northern region, strong marketing channel, operating efficiency arising out of backward integration and captive power plant, moderate capacity utilization, satisfactory capital structure and comfortable liquidity position. The ratings, however, are constrained by deterioration in operational & financial performance in FY18 (refers to the period from April 1 to March 31) and 9MFY19, volatility in input and finished goods prices partial procurement of high cost limestone from the open market and on-going WHRS capex.

Going forward, ability of the company to improve the profitability amidst the volatile input prices and cement prices and successful commissioning of WHRS within estimated cost and time are key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### ***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. Mr. B. K. Birla, the promoter of MCL, is an eminent industrialist. Being a part of the B.K. Birla group, MCL enjoys financial flexibility 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. The company also has a qualified & experienced management team.

#### ***Established brand with concentration in the northern region***

MCL generally produces two grades of cement, viz., PPC and 43 grade of OPC, sold under the brand name 'Birla Uttam Cement' which is well recognized in the market. Northern region contributed around 70% in FY18 as against 77% to the total sales of the company in FY17. Rajasthan & Uttar Pradesh forming the major market with the contribution of about 65%. MCL has significantly increased its presence in Madhya Pradesh and Uttar Pradesh region over the last few years with the region contributing to 24% to 27% to the total sales during FY18 and FY17 respectively

#### ***Strong distribution network***

MCL has established an extensive network for marketing its products. The company has about 130 marketing staffs in aggregating in Rajasthan, Madhya Pradesh, Delhi, Haryana & UP. It also has a network for 44 sales promoters, 1191 dealers and 1566 sub dealers for selling the cement to the end customers in the above-mentioned territories. Furthermore, in view of the established brand along with strong distribution network, the company finds it easier to expand its reach and diversify its sales

#### ***Backward integration with partial procurement of limestone from open market***

MCL has a captive limestone mines situated at a close proximity to the plant. Proximity to the major raw material minimizes the transportation cost for sourcing of the raw materials and enhances the operational effectiveness. However the company mixes the captive limestone with the high grade limestone which is partially procured from open market as

well as from its captive mines at Gagrana, Nagaur, Rajasthan located at a distance of about 350 kilometers. Procurement of limestone from Nagaur involves high transportation cost and subsequently higher raw material cost.

#### ***Captive power plant meeting the power requirement***

MCL has self-sufficiency in the power requirement. The company has two units of coal based captive power plant with an installed capacity of 35 MW in Kota and two units of wind based power with an installed capacity of 13.65 MW in Jaisalmer which meets the power requirement of the company. In addition the company is in process of setting up 11MW WHRS power plant which is expected to reduce the power and fuel cost in the future

#### ***Moderate capacity utilization***

MCL's capacity utilization has been around 66% to 68% between FY16 to FY18. In 9MFY19 effective capacity utilization of cement was around 71% and in Q1FY19 it was around 60%. Low capacity utilized during Q1FY19 is due to shutting down of clinker kiln for 51 days.

#### ***Comfortable liquidity position***

Liquidity position remains satisfactory as evident from healthy cash and cash equivalents of around Rs.116.16 crore as on December 31, 2018 coupled with liquidity buffer available in the form of unutilized working capital limit and undisbursed loans which are already sanctioned. Accordingly though the repayment of term loan is high going forward vis-à-vis expected internal generation, the comfort is derived from healthy liquidity maintained by the company. Average utilization of working capital remained low at 36% during the last twelve months ended on December 31, 2018.

#### ***Satisfactory capital structure***

Capital structure of the company continues to remain satisfactory with overall gearing at 0.74x as on March 31, 2018 improving from 0.79x as on March 31, 2017. TD/GCA is 5.88 in FY18 as against the 4.31 in FY17. Further MCL proposes to extend corporate guarantee for debt proposed to be raised by one of its group company Mangalam Timber Ltd aggregating Rs.50 crore. Even considering such exposure, the adjusted gearing is expected to remain comfortable in future.

Key rating weakness

#### ***Deterioration in performance in FY18 and 9MFY19***

During FY18, the total operating income saw a y-o-y increase of around 19% due to increase sales volume and realization of cement. PBILDT margin of the company, however, witnessed deterioration mainly due to pet-coke usage restriction in Q3FY18 and increasing prices of the same following the lifting of the ban in Q4FY18. This led to increased power & fuel costs in FY18 for the company. This was in addition to rising diesel prices which continued put pressure on margins. During 9MFY19, the company reported a loss of Rs.18.15 crores on a total income of Rs.893.40 crores, majorly on account of shutting down of clinker kiln for 51 days in the Q1FY19 and weak Q2FY19 due to monsoon leading to decline in cement production and also led to under recovery of fixed cost.

#### ***Ongoing WHRS Capex***

MCL is setting up 11MW waste heat generated recovery plant at existing factory at Morak, Kota with a total outlay of Rs.100 crore. COD of the project is expected to be in May, 2019 and around Rs.85 Cr has been incurred till December 2018.

#### ***Volatility in input and finished goods prices***

Limestone is the primary raw material for manufacture of cement. Further, the industry being highly power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet coke and crude oil. For limestone, MCL has its captive mines in Morak, Rajasthan but due to relatively inferior quality, the company also has to procure good quality of limestone from open markets which are relatively costly.

In reference to the above, partial dependence on the open market for meeting the raw material requirement exposes the company to risk related to volatile prices. Furthermore, the price of cement remains susceptible to the demand supply scenario. Hence any adverse movement in the prices of raw materials or the diesel cost without a corresponding movement in the price of the cement can affect the profitability of the company.

#### ***Industry Outlook***

The outlook of cement demand stays stable given governments focus on infrastructure and affordable housing and increased political stability which can drive further reforms.

#### ***Prospects***

The prospects of the company would depend upon successful completion and commissioning of the proposed WHRS project within estimated cost and time and its ability to improve the profitability amidst the volatile input cost and cement prices.

**Analytical approach:** Standalone.

**Applicable Criteria**

**Criteria for Short Term Instruments**

**CARE's Policy on Default Recognition**

**CARE's methodology for cement companies**

**Financial Ratios – Non-Financial Sector**

**About the company**

Incorporated in 1976 and having commenced its business in 1977, Mangalam Cement Ltd. (MCL) is a part of B.K. Birla group. The company is engaged in the business of manufacturing cement and currently has an installed cement capacity of 4.00 MTPA (0.75 mpta grinding unit at Aligarh commenced commercial operations in September 2016), clinker capacity of 2.30MTPA and coal based captive power plant of 35 MW (two plants with a capacity of 17.50 MW each) located at Kota and 13.65 MW (two plants with a capacity of 6.15 MW and 7.50 MW) wind power plant 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 (Puzzolona Portland Cement) and OPC (Ordinary Portland Cement).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	924.38	1105.65
PBILDT	137.22	105.79
PAT	36.63	11.38
Overall gearing (times)	0.79	0.74
Interest coverage (times)	2.89	2.24

A: Audited

**Status of non-cooperation with other CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications

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## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	120.00	CARE A+; Stable
Term Loan-Long Term	-	-	December 2023	343.01	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-		175.00	CARE A+; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	-	103.97	CARE A+; Stable
Debentures-Non Convertible Debentures	August 09, 2018	NA	NA	50.00	CARE A+; Stable
Commercial Paper	-	-	7 to 364 days	75.00	CARE A1

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	120.00	CARE A+; Stable	1)CARE A+; Stable (10-Aug-18)	1)CARE AA-; Stable (29-Dec-17) 2)CARE AA-; Stable (07-Jul-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Jan-16)
2.	Term Loan-Long Term	LT	343.01	CARE A+; Stable	1)CARE A+; Stable (10-Aug-18)	1)CARE AA-; Stable (29-Dec-17) 2)CARE AA-; Stable (07-Jul-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Jan-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	175.00	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (10-Aug-18)	1)CARE AA-; Stable / CARE A1+ (29-Dec-17)	1)CARE AA-; Stable / CARE A1+ (11-Jan-17)	1)CARE AA- / CARE A1+ (11-Jan-16)

						2)CARE AA-; Stable / CARE A1+ (07-Jul-17)		
4.	Fund-based - LT-Term Loan	LT	103.97	CARE A+; Stable	1)CARE A+; Stable (10-Aug-18)	1)CARE AA-; Stable (29-Dec-17) 2)CARE AA-; Stable (07-Jul-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Jan-16)
5.	Commercial Paper	ST	75.00	CARE A1	1)CARE A1 (10-Aug-18)	1)CARE A1+ (29-Dec-17)	1)CARE A1+ (06-Mar-17)	-
6.	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; Stable	1)CARE A+; Stable (10-Aug-18) 2)CARE AA-; Stable (06-Apr-18)	-	-	-

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