Mangalam Cement Limited

April 6, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debenture	**250.00 (Rupees Two Hundred and Fifty Crore)**	**CARE AA-/Stable (A Minus; Outlook: Stable)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the proposed instrument of Mangalam Cement Limited (MCL) to draw comfort from the rich experience of the promoters, long & established track record of the group, established brand though majorly concentrated in northern region, strong marketing channel, operating efficiency arising out of backward integration & satisfactory capital structure. The rating also factors in improvement in profitability during FY17 followed by moderation witnessed in 9MFY18 on account of restriction on pet coke usage during Q3FY18. The ratings, however, are constrained by partial procurement of high cost limestone from the open market, volatility in input and finished goods prices and cyclicality of cement industry.

Going forward, ability of the company to improve the capacity utilization and improve the profitability as envisaged form the 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.

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 over 75% to 77% to the total sales of the company in FY16 and FY17. In the northern region, Rajasthan & Uttar Pradesh formed the major market with the contribution of about 70%. However, the company has increased its presence in Madhya Pradesh region over the last few years with the region contributing to 23% to 24% to the total sales during FY17 and FY16 as compared to the contribution of 17% in FY15.

Backward integration with partial procurement of limestone from open market

MCL has captive limestone mines situated at a close proximity to the plant. The proximity to the major raw material minimizes the transportation cost for sourcing of the raw materials and enhances the operational effectiveness. The captive mines have sufficient proven reserves of about 170 million tonnes. 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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publication*

Strong marketing channel

MCL has established an extensive network for marketing its products. The company has 42 depots & 94 Marketing staffs. It has a network for 40 Sales Promoters, 1315 Dealers and 2156 Retailers for selling the cement to the end customers in the above-mentioned territories. The extent of reliance on any particular dealer is minimal as the top five dealers contributed a mere 15% to the gross sales of the company in FY17.

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. Overall power consumption per tonne of cement stood at 75 Kwh/tonne in FY16 and FY17 as against 78 Kwh/tonne in FY15.

Moderate capacity utilization

MCL's capacity utilisation has been around 66% to 68% between FY15 to FY17. In terms of unit sales, the company sold around 2.41 mtpa of cement during FY17 which was almost in line with FY16 unit sales.

Financial profile marked by Improvement in profitability during FY17 however, followed by moderation witnessed in 9MFY18 on account of restriction on pet coke usage during Q3FY18 & satisfactory capital structure:

During FY17, PBILDT level of MCL improved significantly (Rs.50.46 crore in FY16 to Rs.133.62 crore in FY17) mainly on account of better realization & decline in cost of inputs. Higher PBILDT level led to improvement in PAT levels & GCA. The company achieved a GCA of Rs.82.26 crore in FY17 (Rs.5.30 crore in FY16).

Capital structure of the company continues to remain satisfactory with overall gearing at 0.82x as on March 31, 2017. In last 12 months ended January 2018, average utilisation of fund based working capital facilities of the company was around 75%.

During 9MFY18 (April to December 2017) the company reported a PAT of Rs. 15.89 crore (Rs. 33.16 crore in 9MFY17) on a total income of Rs.800.09 crore (Rs.657.71 crore in 9MFY17). The deterioration was on account of increase in power and fuel costs emanating from pet coke usage ban.

Key Rating Weaknesses

Volatility in input and finished goods prices

Limestone is the primary raw material for manufacture of cement. Furthermore, 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 its ability to improve capacity utilization and improve the profitability as envisaged.

Analytical approach: Standalone Approach.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	847.38	920.78
PBILDT	50.46	133.62
PAT	-21.46	36.63
Overall gearing (times)	1.12	1.00
Interest coverage (times)	0.98	2.56

A: Audited

Status of non-cooperation with previous 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Anil More
Tel: 033 4018 1623
Mobile: +91 8444 867144
Email: anil.more@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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
Debentures-Non Convertible Debentures	-	-	-	250.00	CARE AA-; Stable

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	95.00	CARE AA-; Stable	-	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	269.31	CARE AA-; Stable	-	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	125.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (29-Dec-17) 2)CARE AA-; Stable / CARE A1+ (07-Jul-17)	1)CARE AA-; Stable / CARE A1+ (11-Jan-17)	1)CARE AA- / CARE A1+ (11-Jan-16)
4.	Fund-based - LT-Term Loan	LT	103.97	CARE AA-; Stable	-	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+ (29-Dec-17)	1)CARE A1+ (06-Mar-17)	-
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA-; Stable	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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