

Mangalam Cement Limited (Revised)

August 10, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating action
Long Term Bank Facilities	468.28	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Long/Short Term Bank Facilities	125.00	CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)	Revised from CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)
Total	593.28 (Rs Five hundred ninety three lakh and twenty eight lakh only)		
Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Commercial Paper	75.00 [^]	CARE A1 (A One)	Revised from CARE A1+ (A One Plus)
Proposed Non-Convertible Debenture	250.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)

Details of instruments/facilities in Annexure-1

[^] carved out of sanctioned working capital limits of the company

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to Mangalam Cement Limited (MCL) factor in the moderation in the operational and financial performance of the company in FY18 (*refers to period April 1 to March 31*) and significant deterioration in Q1FY19. The ratings continue 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 ratings, however, are constrained by partial procurement of high cost limestone from the open market, volatility in input and finished goods prices and cyclical nature 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 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.

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. 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 FY15 to FY18. In terms of unit sales, the company sold around 2.75 mtpa of cement in FY18, due to complete year of operations of the Aligarh unit in FY18 as against 2.41 mtpa of cement during FY17 which was almost in line with FY16 unit sales.

Key rating weakness**Deterioration in operational performance in FY18 and Q1FY19:**

During FY18, the total operating income saw a y-o-y increase at around 19% due to increase sales volume of cement. The PBILDT margin of the company, however, witnessed deterioration, impacted by 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 and fuel costs for the company. This was in addition to rising diesel prices which continued put pressure on margins.

Capital structure of the company continues to remain satisfactory with overall gearing at 0.73x as on March 31, 2018 improving from 0.82x as on March 31, 2017.

During Q1FY19, the company reported a loss of Rs.15.32 crore on a total income of Rs.259.24 crore. The deterioration was majorly on account of shutting down of clinker kiln leading to a fall in cement production in the quarter. This led to an impact on PBILDT and the company incurred a cash loss of Rs2.54 crore in the quarter.

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.

Cyclicity of cement industry

Cyclical nature of cement industry 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 realizations.

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.

Applicable Criteria

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

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[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 mtpa 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)	FY17 (A)	FY18 (A)
Total operating income	920.78	1095.90
PBILDT	133.62	96.05
PAT	36.63	12.11
Overall gearing (times)	1.00	0.73
Interest coverage (times)	2.56	2.17

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. Investors/market intermediaries/regulators or others are welcome to write to 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	-	-	-	95.00	CARE A+; Stable
Term Loan-Long Term	-	-	December 2023	269.31	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	125.00	CARE A+; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	-	103.97	CARE A+; Stable
Proposed Debentures-Non Convertible Debentures	NA	NA	NA	250.00	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	95.00	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	269.31	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	125.00	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (10-Aug-18)	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 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.	Proposed Debentures-Non Convertible Debentures	LT	250.00	CARE A+; Stable	1)CARE A+; Stable (10-Aug-18) 2)CARE AA-; Stable (06-Apr-18)	-	-	-

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