Mangalam Cement Limited (Revised)
December 23, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	704.64 (566.98)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank facilities	160.00 (175.00)	**CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)**	**Reaffirmed**
Total	**864.64 (Rupees Eight hundred sixty-four crores and sixty-four lakhs only)**		
Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Commercial Paper	75.00 (75.00)	**CARE A1 (A One)**	**Reaffirmed**
Proposed Non-Convertible Debenture	50.00 (50.00)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Mangalam Cement Limited (MCL) continues to draw comfort from promoter's experience coupled with long & established track record of the group, established brand with concentration in the northern region, strong distribution network, operating efficiency arising out of backward integration, captive power plants, cost optimization offered by split units of the project and proximity of the project to various raw material sources, improvement in capacity utilization in FY19 and H1FY20 vis-à-vis FY18 and eligibility for subsidies. The ratings also factor in availability of coal linkage for CPP since Q4FY19, moderation in freight cost with Kota highway repaired, expected sale tax refund of Rs.60 crores and benefits that shall accrue owing to commencement of WHRS power plant. The ratings, however, are constrained by deterioration in financial risk profile as reflected in deterioration in profitability, capital structure and Total debt/GCA in FY19, though it improved substantially in H1FY20, shift of liquid investments parked in FD to ICDs, cost and time overrun in ongoing WHRS capex, volatility in input and finished goods prices, partial procurement of high cost limestone from the open markets and cyclicality of cement industry. While a part of the ICDs have been recovered, CARE expects the balance liquidity blocked in ICDs to be recovered in FY20 itself and same shall be a key rating monitorable.

Rating Sensitivities

Positive Factors

- Improvement in scale of operation leading to increase in total operating income (to greater than Rs.1800 crore) and profitability (PBILDT margin greater than 15%) on a sustained basis
- Improvement in capital structure (overall gearing less than 0.6x) and debt protection metrics (PBILDT interest coverage greater than 6x) on a sustained basis.

Negative Factors

- Lower than envisaged profitability leading to decline in PBILDT margins below 10% or PBILDT interest coverage going below 3x
- Any substantial debt ridden capex leading to deterioration in capital structure

Detailed description of 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. Late Mr. B. K. Birla, the promoter of MCL, was 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 was incorporated in 1976 and commenced its business in 1977. The company generally produces two grades of cement, viz., PPC (~69%) and OPC (~31%), sold under the brand name '*Birla Uttam Cement'* which is well recognized in majorly in the northern markets. Northern region contributed around 78% in FY19 as against 73% to the total sales of the company in FY18. Rajasthan & Uttar Pradesh forms the major market with the contribution of about 73%. In Q1FY20 and Q2FY20, Rajasthan and Uttar Pradesh contributed about 72% and 76% of total sales respectively.

Strong distribution network

MCL has established an extensive network for marketing its products. The company has a network for 51 sales promoters, 1133 dealers and 1660 sub dealers 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 contribute around 8.03% to the sales of the company in FY19. 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 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. However, 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 kilometers 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 8.41% of the company's limestone requirement was procured from open market in FY19 as against 11.4% in FY18.

Captive power plant meeting 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 ensuring continuous supply of power at competitive rates. The captive power sources catered to about 77% of the company's power requirement in FY19 (88% in FY18). The company has entered into linkages for 100% of its coal requirements in Q4FY19 for keeping the volatility of coal price in check which resulted in easing of coal costs for CPP. Further, the Company is in process of setting up 11MW WHRS power plant at existing factory at Morak, Kota which is expected to become operational by Dec-2019 end and reduce the power cost by approximately Rs.25 crore per annum.

Cost optimization offered by split units of the project and proximity of the project to various raw material sources

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 ~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 and partly from captive power plant of MCL. Further, apart from limestone and fly ash which constitutes 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.

Improvement in capacity utilization in FY19 and H1FY20 vis-à-vis FY18 with moderation in Q2FY20

MCL's capacity utilization (CU) for cement has improved from 69% in FY18 to 74% in FY19 despite the shutdown of clinker unit in Q1FY19 for 51 days. CU stood at 74% and 63% in Q1FY20 and Q2FY20 respectively vis-à-vis 68% in Q1FY19 and 72% Q2FY19. CU for clinker plant improved from 89% in FY18 to 91% in FY19 and further to 95% in Q1FY20 but declined to 83% in Q2FY20. Capacity utilization declined in Q2FY20 due to heavy monsoon affecting the cement sales negatively.

Moderate capital structure

Capital structure of the company remained moderate with overall gearing ratio of the company deteriorating from 0.82x as on March 31, 2018 to 1.14x as on March 31, 2019 on account of availment of new term loans by the company in FY19. TD/GCA and interest coverage ratio of the company deteriorated from 6.50x and 2.24x in FY18 to 18.24x and 1.47x in FY19 respectively, mainly on account increase in total debt along with decline in GCA in FY19. However, the overall gearing, TD/GCA and interest coverage ratio improved significantly in H1FY20 to 1.11x, 3.09x and 4.29x respectively backed by improved GCA and debt repayments during the term.

Eligible for subsidies

The company is eligible to avail certain subsidy and exemptions given by Government of Rajasthan & U.P. on account the expansion project undertaken by the company in both 2014 and September 2016. In FY19, MCL is entitled to a subsidy of Rs. 4.53 crore (Rs. 3.90 crore in FY18) from Government of Rajasthan in form of investment subsidy. Total subsidy due to be received is Rs.3.45 crore as on September 30, 2019. The Company is also eligible for interest free loan from the Government of Uttar Pradesh, over a period of 10 years, which will be repaid after 7 years from the date of first disbursement. Further, the company became eligible for Railway freight rebate under the Long term traffic contract, scheme of the Ministry of Railways. The incentives provide added cost advantage to the company.

Key rating weaknesses

Deterioration in performance in FY19 albeit improvement from Q4FY19 onwards
The total sales of the company witnessed a growth of 6.8% y-o-y from Rs.1119 crore in FY18 to Rs.1195 crore in FY19 driven by rise in volume of sales by 7.2%. Further, there was significant rise of 15% in sales during H1FY20 vis-a-vis H1FY19 on account of increase in average sales realization to Rs.4,683 in H1FY20 per MT from Rs.3,928 per MT in H1FY19. PBILDT margin declined from 9.59% in FY18 to 6.14% in FY19 on account of closure of the clinkering unit for 51 days in H1FY19 which led to decline in cement production and also lead to under recovery of fixed costs. Further, increase in power & fuel cost, which contributes ~30% of the total cost of production of cement, from Rs.1085 per tonne of cement production in FY18 to Rs.1290 per tonne of cement production in FY19 also contributed to the decline in PBILDT margins. This was mainly on account of increase in cost of pet coke used in kiln from Rs.8846 per MT in FY18 to Rs.10821 per MT in FY19. The company incurred a loss of Rs.9.74 crore in FY19 against a PAT of Rs.11.38 crore in FY18 mainly on account of decline in operating profits along with increase in interest cost from Rs.47.27 crore in FY18 to Rs.50.78 crore in FY19. The company earned a GCA of Rs.30.54 crore in FY19 (Rs.63.20 crore in FY18) crore against a debt repayment obligation of Rs.91.66 crore in FY19. The shortfall in repayment was met out of new term loans availed by the company during FY19.

In H1FY20, the performance of the company witnessed a significant improvement vis-à-vis H1FY19 with EBIDTA increasing to Rs.127.97 crore in H1FY20 from Rs.29.32 crore in H1FY19 owing to higher sales realization and decline in power and fuel cost (due to coal linkages for CPP). Further, PAT increased to Rs.47.95 crore in H1FY20 against a loss of Rs.12.19 crore in H1FY19.

Ongoing WHRS Capex with both time and cost overrun
MCL is setting up 11MW waste heat generated recovery plant at existing factory at Morak, Kota with a total outlay of Rs.120 crore to be funded through term loan of Rs.100 crore and balance by internal accruals (project cost revised from Rs.100 crore as on March 31, 2018 which was to be funded from term loan of Rs.85 crore and internal accruals of Rs.15 crores). The company has already incurred Rs.100 crore for this project as on Sep-end 2019. COD of the project is expected to be in December, 2019 (revised from May 2019). The power cost of the company is expected to go down by ~Rs.25 crore per year post commencement of the WHRS plant leading to improved profitability.

Volatility in input and finished goods prices
Limestone is the primary raw material for manufacturing cement. Further, the industry being high 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 partly from captive mines as Gagrana (~350Kms from the plant) and partly from open markets which are relatively costly (details covered in previous sections). While pet coke is mostly imported, for coal the company is relying on both domestic and international sources. Coal Linkage agreements have been made by the company in Q4FY19 for meeting its coal requirements for captive power plants. 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.

Cyclicality of the 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 realisations.

Liquidity - Adequate
The Company had a repayment obligation of Rs.91.66 crore in FY19 which was met partly out of GCA of Rs.30.54 crore and partly through a combination of reduction in ICDs and through fresh borrowings. In FY20, GCA is expected to be sufficient to meet the debt repayment obligations of Rs.111.94 crore (about Rs.98 cr has already been repaid as on 26th November 2019). Further the average month end utilisation of the fund based limits was 51.48% during the last twelve months ending September'19. MCL also had cash and cash equivalents of Rs.52.26 crore as on September 30, 2019. The

company also expects to realize ICDs amounting to Rs.60 cr by March 2020 which shall provide sufficient cushion to the liquidity of the company.

Analytical approach: Standalone

Applicable Criteria

- Criteria on assigning Outlook and credit watch to Credit Ratings
- Criteria for Short Term Instruments
- CARE's Policy on Default Recognition
- Factoring Linkages in Ratings
- CARE's methodology for cement companies
- Financial Ratios – Non-Financial Sector
- Rating Methodology – Manufacturing Companies

About the Company

Incorporated in 1976 and having commenced its business in 1977, Mangalam Cement Ltd. (MCL) is a professionally run company, managed by Smt. Vidula 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 4.00 MTPA (0.75 mpta grinding unit at Aligarh commenced commercial operations in Sep'16), 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 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 (Pozzolana Portland Cement) and OPC (Ordinary Portland Cement).

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	1103.08	1217.03
PBILDT	105.79	74.67
PAT	11.38	-9.74
Overall gearing (times)	0.82	1.14
Interest coverage (times)	2.24	1.47

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of 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	-	-	-	145.00	CARE A+; Stable
Term Loan-Long Term	-	-	December 2023	309.64	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	160.00	CARE A+; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	September 2024	250.00	CARE A+; Stable
Debentures-Non Convertible Debentures	-	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.	Name of the	Current Ratings	Rating history

No.	Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	145.00	CARE A+; Stable	-	1)CARE A+; Stable (19-Feb-19) 2)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)
2.	Term Loan-Long Term	LT	309.64	CARE A+; Stable	-	1)CARE A+; Stable (19-Feb-19) 2)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)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	160.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (19-Feb-19) 2)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)
4.	Fund-based - LT-Term Loan	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (19-Feb-19) 2)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)
5.	Commercial Paper	ST	75.00	CARE A1	-	1)CARE A1 (19-Feb-19) 2)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 (19-Feb-19) 2)CARE A+; Stable (10-Aug-18) 3)CARE AA-; Stable (06-Apr-18)	-	-

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.*

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no.- +91-22-6837-4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Mr. Punit Singhania
Contact No. - 033-4018 1620
Email id – punit.singhania@careratings.com

Business Development Contact

Name: Mr. Lalit Sikaria
Contact No. - 033-4018 1607
Email id – lalit.sikaria@careratings.com

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