

Mangalam Cement Limited

December 29, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	468.28 (enhanced from 458.30)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long/Short Term Bank Facilities	125.00	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Reaffirmed
Total	593.28 (Rupees Five Hundred Ninety Three crore and Twenty Eight lakh only)		
Commercial Paper (CP) issue[^]	75.00 (Enhanced from 50.00)	CARE A1+	Reaffirmed

Details of facilities/instruments in Annexure-1

[^] Carved out of the sanctioned fund based working capital limits of the company.

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 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. 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 thereby improve the profitability forms 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 a 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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Strong distribution network

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 contribute 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 & 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 October 2017, average utilisation of fund based working capital facilities of the company was around 70%.

During H1FY18 (April to September 2017) the company reported a PAT of Rs.13.18 crore (Rs.27.31 crore in H1FY17) on a total income of Rs.496.93 crore (Rs.421.26 crore in H1FY17).

Key Rating weakness**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

MCL is well poised to reap the benefits of expected growth in demand in the industry in future. However, any major debt funded capex remains key rating sensitivities.

Analytical approach: Standalone.

Applicable Criteria

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

[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 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)	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 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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 AA-; Stable
Term Loan-Long Term	-	-	December 2023	269.31	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	103.97	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	125.00	CARE AA-; Stable / CARE A1+
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	95.00	CARE AA-; Stable	1)CARE AA-; Stable (07-Jul-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Jan-16)	1)CARE AA- (20-Jan-15)
2.	Term Loan-Long Term	LT	269.31	CARE AA-; Stable	1)CARE AA-; Stable (07-Jul-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Jan-16)	1)CARE AA- (20-Jan-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	125.00	CARE AA-; Stable / CARE A1+	1)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)	1)CARE AA- / CARE A1+ (20-Jan-15)
4.	Fund-based - LT-Term Loan	LT	103.97	CARE AA-; Stable	1)CARE AA-; Stable (07-Jul-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Jan-16)	1)CARE AA- (20-Jan-15)
5.	Commercial Paper	ST	75.00	CARE A1+	-	1)CARE A1+ (06-Mar-17)	-	-

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