Mangalam Cement Limited

December 31, 2020

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	780.56 (Enhanced from 704.64)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	160.00	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Revised from CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable / A One)
Total Bank Facilities	**940.56 (Rs. Nine Hundred Forty Crore and Fifty-Six Lakhs Only)**		
Non Convertible Debentures	-	-	Withdrawn
Commercial Paper	75.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Short Term Instruments	**75.00 (Rs. Seventy-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in short term ratings assigned to bank facilities and instruments of Mangalam Cement Limited (MCL) is on account of improved liquidity as a result of improved financial performance in FY20 and H1FY21 backed by high realization and cost optimization measures undertaken by the company alongwith liquidation of majority portion of ICDs., Further, MCL have already progressed on refinancing front with funds already available with it which is expected to lead to improve in debt service coverage indicators..

The reaffirmation of long term and revision in short term rating also factors in 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 through availability of limestone reserves and captive power plants, cost optimization offered by the newly commissioned WHRS plant, split units of the project, proximity of the project to various raw material sources, availability of coal linkage for CPP power requirements and eligibility for subsidies and rebates from various state governments. The ratings also factors in proposed enhancement in clinker capacity by 0.3 MTPA to be commissioned by Q1FY22, which will lead to increased cement utilization by 0.4 MTPA.

The ratings, however, are constrained by exposure of MCL to competitive pressure given its geographical concentration and scale of operation, project risk associated with capex for enhancement in clinker capacity, volatility in input and finished goods prices, partial procurement of high cost limestone from the open markets and cyclicality of cement industry.

Rating Sensitivities

Positive Factors

- Improvement in scale of operation leading to increase in total operating income (to greater than Rs.2000 crore) and profitability (PBILDT margin greater than 18%) on a sustained basis
- Improvement in capital structure (overall gearing less than 0.5x) and debt protection metrics (PBILDT interest coverage greater than 7.50x) on a sustained basis.

Negative Factors

- Lower than envisaged profitability leading to decline in PBILDT margins below 14% or PBILDT interest coverage going below 2.00x
- Any further large scale 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. By 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 (~71%) and OPC (~29%), sold under the brand name '*Birla Uttam Cement'* which is well recognized in majorly in the northern markets. Northern region contributed around 79% in FY20 as against 78% to the total sales of the company in FY19. Rajasthan & Uttar Pradesh forms the major market with the contribution of about 74%. In H1FY21 and, Rajasthan and Uttar Pradesh contributed about 77% of total sales.

Strong distribution network

MCL has established an extensive network for marketing its products. The company has a network for 51 sales promoters, 1148 dealers and 1864 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 6.50% to the sales of the company in FY20. 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 kilometres 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 9.29% of the company's limestone requirement was procured from open market in FY20.

Substantial improvement in financial performance in FY20 driven by better sales realization and cost optimization measures

Profit margins of the company, at both PBILDT and PAT levels, improved significantly during FY20. PBILDT margins improved from 6.14% in FY19 to 17.93% in FY20 on account of higher sales realisation from Rs.4037 per ton in FY19 to Rs.4600 per ton in FY20. There has also been savings in fuel cost owing to fall in coal prices driven by coal sourcing from linkages and forward purchases at competitive prices. EBIDTA per ton of cement sales improved from Rs.252 per ton in FY19 to Rs.853 per ton in FY20 on the back of above mentioned factors.

The total sales of the company witnessed a growth of 3% y-o-y from Rs.1195 crore in FY19 to Rs.1224 crore in FY20, despite the moderation in sales volume by 8% (as described in note above), driven by significant rise in sales realisation by 14% y-o-y in FY20. The company earned a profit of Rs.75.90 crore in FY20 as compared to loss of Rs.9.74 crore in FY19, despite increase in interest cost from Rs.54.35 crore in FY19 to Rs.71.62 crore in FY20 (interest cost was higher in FY20 on account of increase in borrowings for WHRS plant).

In H1FY21, PBILDT margins further improved to 21.55% (20.56% in H1FY20) on the back of increased realisation of Rs.4654 per ton and also due to power cost savings from newly setup WHRS plant, despite lower sales due to the lockdown for around one month. Further, PAT margins stood at 6.42% in H1FY21 (7.70% in H1FY20) impacted by higher capital charges.

Captive power plant including newly established WHRS plant meeting majority of the power requirement in FY20 and H1FY21 leading to savings in power cost

The company has two units of coal based captive power plant with an installed capacity of 35 MW in Kota, two units of wind based power with an installed capacity of 13.65 MW in Jaisalmer and newly established 11 MW WHRS plant in Kota ensuring continuous supply of power at competitive rates. The captive power sources catered to about 72% of the company's power requirement in FY20 (77% in FY18) which increased to 83% in H1FY21 after commissioning of WHRS plant in phases from January 2020 to August 2020. The WHRS plant is expected to reduce the power cost by approximately Rs.25 crore per annum owing to its low operating cost of ~Rs.0.60 per unit of power generated as compared to Rs.8 per unit of power taken from the grid. The company has reduced its minimum power commitment from the grid from 17 MW to 11 MW to save on fixed costs.

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.

Moderation in capacity utilization in FY20 and Q1FY21 albeit improvement in Q2FY21
MCL's capacity utilization (CU) for cement has moderated from 74% in FY19 to 68% in FY20, partly owing to heavy monsoon in Q2FY20 and beginning of Q3FY20, and partly owing to temporary shutdown of operations towards the end of March 2020 owing to nationwide lockdown in response to spread of Covid-19 pandemic. CU in Q1FY21 continued to be impacted by the lockdown and stood at 47%. However, the CU improved in Q2FY21 to 69% post easing of lockdowns in the country and restarting of various construction activities.

Moderate capital structure
Capital structure of the company remained moderate with overall gearing ratio of the company staying almost stagnant at 1.11x as on March 31, 2020 as compared to 1.14x as on March 31, 2019 on account of new long term loans taken by the company in FY20 for the WHRS plant. However, there has been significant improvement in debt protection metrics with TD/GCA and interest coverage ratio of the company improving from 18.40x and 1.47x in FY19 to 4.31x and 3.55x in FY20 respectively, mainly on account of increase in GCA (Rs.146 crores in FY20 as against Rs.31 crores in FY19) as a result of increase in realization and profit margins (at both PBILDT and PAT levels) during the year. Overall gearing stood at 1.00x as on September 30, 2020 led by reduction in debt and increase in net-worth. TD/GCA and interest coverage ratio stood at 4.53x and 3.66x as on Sep 30, 2020.
As per discussion with the management, the company plans to raise Rs.150 crores by January 2021 in addition to Rs.75 crores raised in September 2020 from Axis Finance Limited. Out of the total debt of Rs.225 crores, the company will use Rs.100 crore to finance the clinker expansion project (total cost of ~Rs.135 crores, where Rs.35 crores will be finance through internal accruals). The rest of the debt is proposed to be utilised to prepay existing loans to the extent of Rs.127 crores. Since the repayment of the new loans are of longer tenure (Rs.50 crores for 5 years and Rs.100 crores for 10 years), the repayment obligation for FY22 is expected to reduce to Rs.69.92 crores and Rs.68.86 crores for FY23 as against current repayment obligation of Rs.102 crores in FY22 and Rs.119 crores in FY23 respectively.

Eligible for subsidies
The company is eligible to avail certain subsidies provided by Government of Rajasthan & U.P. on account the expansion project undertaken by the company in both 2014 and September 2016. In FY20, MCL was entitled to a subsidy of Rs. 3.96 crore (Rs. 4.53 crore in FY19) and Rs.1.01 crore for H1FY21. Total subsidy due to be received is Rs.4.97 crore as on December 25, 2020. 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. The company is eligible for Rs.33 crore interest free loan under the scheme till FY19, which is under process for approval. Further, the company became eligible for Railway freight rebate under the Long term traffic contract, scheme of the Ministry of Railways. The company is eligible for rebate of ~Rs.11 crore for the period Nov 2019 to Oct 2020 under the scheme. The incentives provide added cost advantage to the company.

Key rating weaknesses
Exposure of MCL to competitive pressure given its geographical concentration and scale of operation
The company operates majorly in Rajasthan, Uttar Pradesh & Madhya Pradesh. The company is exposed to competitive pressure from larger players who operate in these states due its moderate scale of operations.

Project risk associated with Capex for enhancement in clinker capacity
MCL is in the process of enhancement of its clinker capacity at its existing facility at Morak, Rajasthan from 2.30 million ton to 2.60 million ton at a projected cost of Rs.135 crore, which is to be funded through debt of Rs.100 crore and balance from internal accruals. The company has already incurred ~Rs.74.17 crores as on December 25, 2020, and expects to commission the enhanced capacity by Q1FY22. The company has already raised new debt of Rs.75 crore from Axis bank and in process of raising further Rs.150 crores by January 2020. Out of the Rs.225 crores received, Rs.100 crores will be used for Capex funding and the rest will be utilized for prepayment of debts.
The enhanced clinker capacity will be a material step in increasing the capacity utilisation of its cement plant which had a CU of 68% as against 93% CU of clinker capacity in FY20.

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. Linkage agreements have been made by the company in Q4FY19 for meeting most its coal requirements for power plants from Coal India Limited at competitive prices. Coal linkages catered to around 46% of the coal requirement of CPP (17% overall including kiln) in FY20 which improved to ~68% in H1FY21. The company expects to source 100% of its coal requirement from linkage in FY21, after providing for alternate fuels like biomass and lignite, which are much more economical but not available in required quantity. The fuel prices have moderated during FY20 and H1FY21 as compared to FY19. On an overall basis, the company has managed to procure fuel at ~24% lower price in FY20 as compared to FY19 partly owing to sourcing from linkages and partly owing to reduction in fuel prices during FY20. However, dependence on open markets for sourcing majority of its coal requirement exposes the company to the risk of price fluctuations.

This apart, the freight cost also forms one of the major cost components which are co-related to crude prices, which in turn are directly linked with the overseas crude price variations. Hence, the Company remains exposed to the risk arising out of the fluctuation in the prices of the crude in future. Furthermore, the price of cement remains susceptible to fluctuation on account of market dynamics. Hence, any adverse movement in the prices of raw materials or the crude 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.

Impact of Covid-19 Pandemic on MCL

During March 2020, lockdown in response to Covid-19 pandemic was declared across the country by the central/state governments from March 22, 2020. Consequently the manufacturing and sales operations of MCL were impacted due to such lockdown. The operations have been commenced from April 20, 2020 after conforming to the guidelines of the regulatory authorities and taking necessary permissions. While sales and profitability of the quarter were adversely impacted due to the lockdown, the management has not been able to ascertain the exact impact thereof. As per the management, no material impact is expected due to Covid-19 on the carrying value of assets and liabilities as on Sep 30, 2020.

Liquidity - Strong

The liquidity position of MCL is strong with FY20 & H1FY21 debt repayment obligations already paid as per schedule. The company had availed the moratorium facility, provided by bankers in view of Covid-19 pandemic, for its repayments due in April 2020 from Indusind Bank and for March to August 2020 from IDFC bank. The debt repayment obligation for FY21 stands at Rs.79.30 crore (after considering moratorium on Rs.6.25 crore debt) out of which Rs.42.90 crore has already been paid till Nov 30, 2020. Going ahead, continued improved financial performance on account of cost optimization measures is expected to lead to generation of satisfactory cash accruals vis-à-vis debt repayment obligation.

The average fund based utilization of MCL in last 12 months has been at 78% with unutilized line of credit standing at ~Rs.60 crore as on Nov 30, 2020. Liquidity of the company is also bolstered by liquid investment/unencumbered cash & bank balance stood at Rs.158.60 crore as on Nov 30, 2020.

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, coal based captive power plant of 35 MW (two plants with a capacity of 17.50 MW each) located at Kota, 11 MW WHRS unit also 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)	FY19 (A)	FY20 (A)
Total Operating Income	1217.03	1253.44
PBILDT	74.67	224.70
PAT	-9.74	75.90
Overall gearing (times)	1.14	1.11
Interest coverage (times)	1.47	3.55

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	-	-	Sep 2024	410.56	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	160.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	Sep 2026	225.00	CARE A+; Stable
Debentures-Non Convertible Debentures	August 09, 2018	NA	NA	0.00	Withdrawn
Commercial Paper-Commercial Paper (Standalone)	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	145.00	CARE A+; Stable	-	1)CARE A+; Stable (23-Dec-19)	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)
2.	Term Loan-Long Term	LT	410.56	CARE A+; Stable	-	1)CARE A+; Stable (23-Dec-19)	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)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	160.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1 (23-Dec-19)	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)
4.	Fund-based - LT-Term Loan	LT	225.00	CARE A+; Stable	-	1)CARE A+; Stable (23-Dec-19)	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)
5.	Commercial Paper-Commercial Paper (Standalone)	ST	75.00	CARE A1+	-	1)CARE A1 (23-Dec-19)	1)CARE A1 (19-Feb-19) 2)CARE A1 (10-Aug-18)	1)CARE A1+ (29-Dec-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (23-Dec-19)	1)CARE A+; Stable (19-Feb-19) 2)CARE A+; Stable (10-Aug-18) 3)CARE AA-; Stable (06-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Fund-based - LT-Cash Credit	Simple
4.	Fund-based - LT-Term Loan	Simple
5.	Non-fund-based - LT/ ST-BG/LC	Simple
6.	Term Loan-Long Term	Simple

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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