Mangalam Timber Products Limited

February 20 , 2019

Ratings

S.No	Facilities	Amount (Rs. crore)	Ratings[1]	Rating action
(i)	Long term Bank Facilities	12.00	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Reaffirmed**
(ii)	Long term Bank Facilities-Term Loan	50.00	**Provisional CARE A+(SO); Stable [Provisional Single A Plus (Structured Obligation); Outlook: Stable]**	**Assigned**
(iii)	Short Term Bank Facilities	2.58	**CARE A4 (A Four)**	**Reaffirmed**
	Total	**64.58 (Rupees Sixty Four and fifty eight lakhs only)**		

The ratings in (ii) are based on proposed credit enhancement in the form of unconditional and irrevocable corporate guarantee from Mangalam Cement Ltd (rated, CARE A+;Stable /CARE A1). Provisional rating shall be confirmed once the proposed facilities are sanctioned and deed of corporate guarantee is executed.
Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Rs.14.58[facilities(i) and(iii)] of MTPL continue to be constrained by continuous losses, volatile raw material prices with low bargaining power, and working capital intensive nature of operations. The ratings, however, draw strength from long track record and experience of the promoters, along with regular financial support from the group companies. The ability to improve its capacity utilizations and profitability in the wake of increasing raw material prices and to derive benefit from the captive power plant would be the key rating sensitivities.

The rating for long term bank facilities-Term Loan of Rs.50.00 crore [facilities (ii) above] based on credit enhancement in the form of unconditional and irrevocable 'corporate guarantee' of Mangalam Cement Ltd (rated CARE A+;Stable /CARE A1) proposed to be extended for the entire debt (i.e. payment of interest and/or other charges and principal repayment) availed/to be availed during the full tenure of the facility.

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 B.K. Birla group, established brand though majorly concentrated in northern region, strong marketing channel, operating efficiency arising out of backward integration and captive power plant, moderate capacity utilization, satisfactory capital structure and comfortable liquidity position. The ratings, however, are constrained by deterioration in operational & financial performance in FY18 (refers to the period from April 1 to March 31) and 9MFY19, volatility in input and finished goods prices partial procurement of high cost limestone from the open market and on-going WHRS capex.

Going forward, ability of the company to improve the profitability amidst the volatile input prices and cement prices and successful commissioning of WHRS within estimated cost and time are key rating sensitivities.

Detailed description of the key rating drivers for (i) and (iii)

Key Rating Weaknesses

Financial profile marked by continuous losses

The financial profile of the company is marked by continuous losses. In FY18, the net sales declined (by 23.37%) from FY17, due to decline in capacity utilization (from 30% in FY17 to 28% in FY18) leading to lower production. The capacity utilization was low in view of disturbance in power supply from Southern Electricity Supply Company of Odisha Ltd (SOUTHCO) and shortage of key raw material. Also the performance was severely affected due to suspension of work at plant in FY18 with effect from 15 June, 2017 and after necessary maintenance put into operation in last week of September 2017 and also during 9MFY19 due to non-availability of fund. MTPL had installed its own 2.5MW captive thermal power plant to provide uninterrupted power for the production. During 9MFY19, income from operation stood at Rs.11.18cr. MTPL continues to receive support from the group companies. Despite losses, the company managed to serve its debt obligation on time by relying on unsecured loans, term loans and by stretching it creditors.

Volatility in raw material prices

Raw material forms the major cost for the company. Raw material costs especially the cost of firewood and resins have increased significantly. Further the company presently sources its raw material i.e. wood, from three different sources

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

namely, own plantation; local suppliers; and local farmers and because of competition from the nearby paper industries, the company has to incur higher cost for securing the raw materials thereby resulting in a higher variable cost.

Working capital intensive nature of operations

Over the last 3 years, the business of MTPL is characterized by high inventory level to ensure uninterrupted production and uninterrupted supply to the customer. However, the operating cycle of MTPL declined in FY18 and stood at 23 days vis-à-vis 35 days in FY17. In-spite of the increase in creditor days, on account of continued losses incurred and being a working capital intensive industry, the average utilisation of bank limits were high and stood at 90.00% during the 12 months ended December 31, 2018.

Tight Liquidity position

Liquidity of the company is tight as evident from high utilization. The company is relaying on unsecured loan from related party and term loan to service interest. The average utilisation of bank limits were high and stood at 90.00% during the 12 months ended December 31, 2018.

Experienced promoters

The promoter of MTPL, B.K. Birla group, is a leading industrial group with major interests in tea, chemicals & fertilizers, cement, tyres, textiles, vegetable oils, etc. Shri B. K. Birla, the promoter of MTPL, is an eminent industrialist. Being a part of the B.K. Birla group, MTPL enjoys financial flexibility and has been able to raise resources in times of need. Further MTPL is also proposing to amalgamate with MCL and have decided to send a proposal to Board of Directors of MCL to consider the amalgamation between the two companies. The company also has a qualified & experienced management team.

Regular financial support from the group companies

Over the past few years, the company has received need-based financial support from its group company in view of cash loss. The company raised Rs.20 crore as unsecured loan from promoters and bodies corporate. Company is planning to raise term loan of Rs.50 crore backed by the corporate guarantee of MCL.

Detailed description of the key rating drivers for (ii)

<u>Key Rating Strengths</u>

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. 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 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 around 70% in FY18 as against 77% to the total sales of the company in FY17. Rajasthan & Uttar Pradesh forming the major market with the contribution of about 65%. MCL has significantly increased its presence in Madhya Pradesh and Uttar Pradesh region over the last few years with the region contributing to 24% to 27% to the total sales during FY18 and FY17 respectively

Strong distribution network

MCL has established an extensive network for marketing its products. The company has about 130 marketing staffs in aggregating in Rajasthan, Madhya Pradesh, Delhi, Haryana & UP. It also has a network for 44 sales promoters, 1191 dealers and 1566 sub dealers for selling the cement to the end customers in the above-mentioned territories. 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 mines situated at a close proximity to the plant. Proximity to the major raw material minimizes the transportation cost for sourcing of the raw materials and enhances the operational effectiveness. 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.

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 FY16 to FY18. In 9MFY19 effective capacity utilization of cement was around 71% and in Q1FY19 it was around 60%. Low capacity utilized during Q1FY19 is due to shutting down of clinker kiln for 51 days.

Comfortable liquidity position

Liquidity position remains satisfactory as evident from healthy cash and cash equivalents of around Rs.116.16 crore as on December 31, 2018 coupled with liquidity buffer available in the form of unutilized working capital limit and undisbursed loans which are already sanctioned. Accordingly though the repayment of term loan is high going forward vis-à-vis expected internal generation, the comfort is derived from healthy liquidity maintained by the company. Average utilization of working capital remained low at 36% during the last twelve months ended on December 31, 2018.

Satisfactory capital structure

Capital structure of the company continues to remain satisfactory with overall gearing at 0.74x as on March 31, 2018 improving from 0.79x as on March 31, 2017. TD/GCA is 5.88 in FY18 as against the 4.31 in FY17. Further MCL proposes to extend corporate guarantee for debt proposed to be raised by one of its group company Mangalam Timber Ltd aggregating Rs.50 crore. Even considering such exposure, the adjusted gearing is expected to remain comfortable in future.

Key rating weakness

Deterioration in performance in FY18 and 9MFY19

During FY18, the total operating income saw a y-o-y increase of around 19% due to increase sales volume and realization of cement. PBILDT margin of the company, however, witnessed deterioration mainly due to 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 & fuel costs in FY18 for the company. This was in addition to rising diesel prices which continued put pressure on margins. During 9MFY19, the company reported a loss of Rs.18.15 crores on a total income of Rs.893.40 crores, majorly on account of shutting down of clinker kiln for 51 days in the Q1FY19 and weak Q2FY19 due to monsoon leading to decline in cement production and also led to under recovery of fixed cost.

Ongoing WHRS Capex

MCL is setting up 11MW waste heat generated recovery plant at existing factory at Morak , Kota with a total outlay of Rs.100 crore. COD of the project is expected to be in May, 2019 and around Rs.85 Cr has been incurred till December 2018.

Volatility in input and finished goods prices

Limestone is the primary raw material for manufacture of cement. Further, 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 successful completion and commissioning of the proposed WHRS project within estimated cost and time and its ability to improve the profitability amidst the volatile input cost and cement prices.

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
CARE's methodology for cement companies

About the company
MTPL, incorporated in 1982, belongs to the B K Birla group of companies. MTPL is engaged in the manufacturing of Medium Density Fibre Boards (MDF), plain boards and pre-laminated boards of varied thickness, from low-grade hard woods with an installed capacity of 30,000 MT per annum. The product of the company finds its usage in door & window panels, decorative furniture, veneer, plywood, board, etc. The manufacturing facility of the company is located in Nabarangpur, Odisha. The company sells its product under the brand name of 'Duratuff'.The B K Birla group is a diversified industrial group having an interest in tea, chemicals & fertilizers, cement, tyres, textiles, vegetables oils, etc.

About Mangalam Cement Limited
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. The company markets and sells its product under the brand name of Birla Uttam Cement. MCL's product mix comprises of both PPC (Puzzolona Portland Cement) and OPC (Ordinary Portland Cement).

Brief Financials of MTPL

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	30.35	23.73
PBILDT	-13.23	-4.68
PAT	-13.72	-9.34
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

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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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
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE B+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.58	CARE A4
Term Loan-Long Term	-	-	June 26	50.00	Provisional CARE A+ (SO); 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	12.00	CARE B+; Stable	-	1)CARE B+; Stable (21-Mar-18)	1)CARE B+; Stable (11-Jan-17)	1)CARE B+ (08-Dec-15)
2.	Non-fund-based - ST-Letter of credit	ST	2.58	CARE A4	-	1)CARE A4 (21-Mar-18)	1)CARE A4 (11-Jan-17)	1)CARE A4 (08-Dec-15)
3.	Term Loan-Long Term	LT	50.00	Provisional CARE A+ (SO); Stable	-	-	-	-

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