Mangalam Timber Products Limited (Revised)

March 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term Bank Facilities	10.00	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	2.58	**CARE A4 (A Four)**	**Reaffirmed**
Long term Bank Facilities-Term Loan	0.00*	**Provisional CARE A+(CE); Stable [Provisional Single A Plus (Credit Enhancement); Outlook: Stable]**	**Withdrawn**
Total	**12.58 (Rs. Twelve Crore and fifty eight Lakh Only)**		

**The rating was based on proposed credit enhancement in the form of unconditional and irrevocable corporate guarantee from Mangalam Cement Ltd (rated, CARE A+; Stable /CARE A1).*

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Rs.12.58 crore of Mangalam Timber Products Limited (MTPL) continue to be constrained by continuous losses marked by long shutdown of the plant, 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 of the company to improve its capacity utilizations and profitability in the wake of increasing raw material prices would be the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Substantial improvement in capacity utilization
- Availability of cheaper sources of raw materials

Negative Factors

- Substantial decline in average realisation of MDF

Detailed description of key rating drivers

Key rating strengths

Experience of the promoters coupled with long & established track record of group

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. Late Mr. B. K. Birla, the promoter of MTPL, was 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. The company also has a qualified & experienced management team.

Continued support from group companies

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

Over the past few years, the company has received need-based financial support from its group company in view of cash loss. Unsecured loans from related parties increased from Rs.20 crores as on Mar'18 to Rs.43.33 crores as on Dec 31, 2019. Further, the Company is in process of merger with its group company Mangalam Cement limited, which is financially strong and will enhance the operating capabilities of the company.

Key rating weaknesses

Financial profile marked by continuous losses

The financial profile of the company is marked by continuous losses. The net sales declined by 50.50% in FY19 to Rs.11.28 crore from Rs.22.79 crore in FY18 and further to Rs.0.20 crore and Rs.0.30 crore in Q1FY20 and Q2FY20 respectively, negatively affected due to shutdown of the plant since Q3FY19 leading to significant decline in capacity utilization from 28% in FY18 to 9% in FY19. The shutdown was due to disturbance in power supply from Southern Electricity Supply Company of Odisha Ltd (SOUTHCO) and shortage of key raw material i.e. firewood. This affected plant's profit margins and resulted in suspension of work.

The company continued to incur losses in FY19, due to under absorption of fixed overheads owing to the plant shutdown. Net losses increased from Rs.9.34 crore in FY18 to Rs.14.30 crore in FY19 and Rs.6.37 crore in H1FY20. Despite losses, the company served its debt obligation by relying on unsecured loans from Mangalam Cement Ltd.

Post amalgamation with Mangalam Cement limited, the Company's financials are expected to improve. The company has also managed to develop a 100% anti-fungal treated MDF & would be launching the same by the end of FY20. The same would have a substantial demand in the coastal belt of India where humidity is significantly high. The company is also in the process of developing a Fire Retardant MDF. The launch of new products and re-stabilization of production activities would help the company to reduce losses going forward.

Furthermore, the management has taken the trial run of the plant and machinery in December 2019 and commercial production has started from 19th December 2019. However, as per the management the production is subdued in Q4FY20 due to regular break downs, as the plant was shut down for a considerable period of time.

Volatility in raw material prices

Raw material forms the major cost for the company. Raw material costs especially the cost of melamine, formaline and urea has increased significantly and has affected the production costs adversely during FY19. Further, non-availability of firewood, which is a key raw material of the company's product, within a reasonable distance added to the cost of transportation and affected the profitability. Availability of firewood in nearby areas has become difficult, but necessary efforts are being taken to develop long term supply viz.

1. Mist Chamber & Nursery: - Company is increasing its focus on consistent and quality supply of high yielding clonal plants to farmers at affordable price and to increase catchment areas of company for wood.

2. Farm Forestry planting:- Bipartite agreements are entered between the company and large farmers who are supplied quality clones at a very low rate and subsequently the company is given preference at the time of harvesting matured trees. However the above sources only meet 10-15% of the company's requirements. Balance requirement is fulfilled from private suppliers. The company has to incur higher cost for securing the raw materials from private suppliers due to competition from the nearby paper industries, 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. The operating cycle was significantly high at 230 days in FY19 as against 23 days in FY18 due to closure of the plant since July 2018 affecting the inventory holding period and delayed collections. The average inventory holding period of the company went up to 330 days in FY19 as against 260 days in FY18. The average utilisation of bank limits were high and stood at 98.50% during the 12 months ended September 30, 2019.

Liquidity - Stretched

Liquidity of the company is stretched as evident from full utilization of cash credit limits of the company in previous 12 months. The company has no term loan repayment obligations in FY20 and Rs.3.33 crore in FY21. The company is relying on unsecured loans from group entities to service its debt obligations.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Rating Methodology- Factoring linkages in Ratings

About the firm

Mangalam Timber Products Ltd. (MTPL), incorporated in 1982, belongs to the B K Birla group of companies, a diversified industrial group having a major interest in tea, chemicals & fertilizers, cement, tyres, textiles, vegetables oils, etc. MTPL is engaged in manufacturing of Medium Density Fiber 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 Board of Directors comprise of one promoter director and four independent directors.

The board of directors of MCL vide its meeting held on June 21, 2019 have considered and accepted the recommendation of audit committee for scheme of amalgamation of MTPL with Mangalam Cement Ltd (rated CARE A+; Stable/ CAREA1) with effect from April 1, 2019. The audit committee has recommended exchange ratio of 1 fully paid equity share of MCL for every 22 shares held by them in MTPL. The amalgamation is expected to be affected by the end of FY20 by the management.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	23.73	12.07
PBILDT	(4.68)	(10.69)
PAT	(9.34)	(14.30)
Overall gearing (times)	(2.01)	(1.60)
Interest coverage (times)	(0.55)	(1.09)

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	-	-	-	10.00	CARE B+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.58	CARE A4
Term Loan-Long Term	-	-	-	0.00	Withdrawn

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 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	10.00	CARE B+; Stable	-	1)CARE B+; Stable (20-Feb-19)	1)CARE B+; Stable (21-Mar-18)	1)CARE B+; Stable (11-Jan-17)
2.	Non-fund-based - ST-Letter of credit	ST	2.58	CARE A4	-	1)CARE A4 (20-Feb-19)	1)CARE A4 (21-Mar-18)	1)CARE A4 (11-Jan-17)
3.	Term Loan-Long Term	LT	-	-	1)Provisional CARE A+ (SO); Stable (10-Jun-19)	1)Provisional CARE A+ (SO); Stable (20-Feb-19)	-	-

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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