

Mangalam Timber Products Limited

June 10, 2019

Ratings

Facilities	Amount(Rs. crore)	Ratings ¹	Rating action
Long term Bank Facilities-Term Loan	50.00	Provisional CARE A+(SO); Stable [Provisional Single A Plus (Structured Obligation); Outlook: Stable]	Reaffirmed
Total	50.00 (Rupees Fifty crores only)		

The ratings 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 rating for long term bank facilities-Term Loan of Rs.50.00 crore is 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 FY19, 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

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. 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% to the total sales of the company in FY18. 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 the total sales during FY18.

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

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

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 improved from 68% in FY18 to 74% in FY19. In Q1FY19 it was around 60% due to shutting down of clinker kiln for 51 days.

Comfortable liquidity position

Liquidity position remains comfortable as evident from healthy cash and cash equivalents of around Rs.17.13 crore as on March 31, 2019 coupled with liquidity buffer available in the form of unutilized working capital limit. 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 non fund based and fund based remained low at 41% and 35% respectively during the last twelve months ended on April 30, 2019.

Satisfactory capital structure

Capital structure of the company continues to remain satisfactory albeit increase in overall gearing from 0.74x as on March 31, 2018 to 1.04x as on March 31, 2019 due to disbursement of new term loans. In line with it, TD/GCA has increased from 5.88 in FY18 to 16.16 in FY19. 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 satisfactory in future.

Key rating weakness

Deterioration in performance in FY19

During FY19, the total operating income saw a y-o-y increase of around 8% due to increase sales volume 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 for the company. This was in addition to rising diesel prices which continued put pressure on margins. In addition to this, shut down of clinker kiln unit for 51 days in the Q1FY19 and monsoon season in Q2FY19 lead 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 September, 2019 and around Rs.88 Cr has been incurred till May 2019.

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](#)

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 MCL

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1105.65	1195.06
PBILDT	105.79	80.98
PAT	11.38	-9.74
Overall gearing (times)	0.74	1.04
Interest coverage (times)	2.24	1.59

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

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
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 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.	Term Loan-Long Term	LT	50.00	Provisional CARE A+ (SO); Stable	-	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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