

Mangalam Timber Products Ltd.
March 21, 2018
Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	12.00	CARE B+;Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	2.58	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	14.58 (Rupees Fourteen crore and Fifty Eight lakh only)		

** Details in Annexure I*
Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Mangalam Timber Products Ltd (MTPL) continue to be constrained by continuous losses, volatile raw material prices with low bargaining power, and exposure to the industry cycle. 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 realizations 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.

Detailed description of the key rating drivers
Key Rating Weaknesses
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 namely, own plantation; local suppliers; and local farmers (with whom the company has entered into a tripartite agreement, the third party being the bank) 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.

Financial profile marked by continuous losses

The financial profile of the company is marked by continuous losses. In FY17, the net sales declined (by 22.57%) from FY16, due to decline in capacity utilization (from 33% in FY16 to 30% in FY17) 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 i.e. firewood. In FY16 MTPL had installed its own 2.5MW captive thermal power plant and commissioned its trial run to mitigate shortage of power, achieve better production efficiency and thus reduce the cost of production. However, the power plant commissioned commercial production w.e.f 8th Sept'16 to provide uninterrupted power for the production. The company continued to incur operational losses in FY17, due to under absorption of fixed overheads and inability to pass on raw material price increase to customers. MTPL continues to receive support from the group companies. Currently the term loan outstanding consists of unsecured loans from related parties and body corporates. Interest obligation was met from fund support from group companies (unsecured loan of Rs.6.00crore) along with stretching of creditor days and liquidation of current assets.

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 FY17 and stood at 35 days vis-à-vis 97 days in FY16, primarily on account of reduction in average inventory days which stood at 148 days in FY17 vis-à-vis 157 days in FY16 and stretching of creditor's period from 111 days in

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

FY16 to 168 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 98.32% during the 12 months ended January 31, 2018.

Key Rating Strengths

Experienced promoters

The 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 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. The Board of MTPL comprises directors who are highly experienced and eminent personalities. 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. In the last three years, the company raised Rs.11.3crore (Rs.4.9crore in FY15, Rs.0.4crore in FY16 and Rs.6.00crore in FY17) as unsecured loan from promoters and bodies corporate.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

About the Company

Background

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.

Brief Financials of MTPL(Rs. in crore)	FY16(A)	FY17(A)
Total Operating Income	39.20	30.35
PBILDT	-16.39	-13.51
PAT	-12.65	-12.34
Overall Gearing	NM	NM
Interest Coverage	NM	NM

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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.

Analyst Contact:

Name: Mr. Anil More

Tel: (033) 4018 1623

Mobile: +91 8444867144

Email: anil.more@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	-	-	-	12.00	CARE B+; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.58	CARE A4

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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (24-Feb-15)
2.	Fund-based - LT-Cash Credit	LT	12.00	CARE B+; Stable	-	1)CARE B+; Stable (11-Jan-17)	1)CARE B+ (08-Dec-15)	1)CARE B+ (24-Feb-15)
3.	Non-fund-based - ST-BG/LC	ST	2.58	CARE A4	-	1)CARE A4 (11-Jan-17)	1)CARE A4 (08-Dec-15)	1)CARE A4 (24-Feb-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91-0172-490-4000 / 01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691**HYDERABAD**

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com