**Press Release**

# Mangalam Cement Limited

**April 09, 2018**

**Rating**

| Instrument / Facility | Amount (Rs. Crore) | Rating | Rating Action |
|---|---|---|---|
| Non-Convertible Debentures (Proposed) | 250 | IVR AA- /Stable (IVR Double A Minus with Stable Outlook) | Assigned |
| **Total** | **250** | | |

**Details of Facilities are in Annexure 1**

## Detailed Rationale

The aforesaid rating derives comfort from its strong promoters with experienced management team, long track record in the domestic cement sector, operating efficiency due to backward integration with adequate supply arrangements for inputs and power & fuel and established brand presence with strong dealer network. Improvement in financial performance in FY17 (FY refer to the period from April 01 to March 31) along with improvement in capital structure and debt protection parameters also supports the rating. However, the rating is constrained by susceptibility of profitability to volatile input prices & finished goods prices, involvement of high transportation cost due to bulky nature of cement and current subdued demand for cement, although the future outlook for cement is positive. Profitability and gearing level are the key rating sensitivities.

## List of Key Rating Drivers

- Strong promoters with experienced management team
- Long track record in the domestic cement sector
- Established brand presence with a strong dealer network
- Operating efficiency due to backward integration and adequate supply arrangements for inputs and power & fuel
- Improving financial performance
- Improvement in capital structure and debt protection parameters
- Susceptibility to volatile input prices and finished goods prices
- Cement being bulk product entailing higher transportation cost
- Current subdued demand for cement, although future outlook for cement is positive

**Detailed Description of Key Rating Drivers**

**Key Rating Strengths**

***Strong promoters with experienced management team and long track record in the domestic cement sector***

MCL is a part of the reputed B.K.Birla group having major interests in tea, coffee, cement, textiles, timber, tyres, etc. MCL has been in cement manufacturing for over 40 years and has weathered many storms arising out of volatility in the cement sector, among others and made a notable presence in the sector. The promoters are actively involved in the operations of MCL well supported by a team of experienced professionals.

***Established brand presence with a strong dealer network***

MCL sells its produce under the brand name 'Birla Uttam Cement' which is well recognized in the market driven by its long presence in the industry. The product profile of the company comprises both Portland Pozzolana Cement (PPC) and Ordinary Portland Cement (OPC). MCL operates mainly in Rajasthan, Uttar Pradesh, Madhya Pradesh, Delhi, Haryana and Punjab with a network of about 3500 dealers and retailers.

***Operating efficiency due to backward integration and adequate supply arrangements for inputs and power & fuel***

Major raw materials for cement production are limestone, gypsum and fly-ash. MCL sources limestone from its captive leasehold mine, located at about two kms from the plant, against royalty payment. The proven limestone reserves (around 175 million tonnes) in this mine are likely to cater to MCL's requirement till 2030 when the license for the mine expire. MCL has another, relatively small, limestone mine at Gagrana which produces superior quality of limestone. For other raw materials like fly ash, PET coke and gypsum, MCL has long term supply arrangements with various companies. The requirement of coal is met through linkage with Coal India Ltd along with imports. Cement manufacturing is a power intensive process and MCL has an aggregate requirement of about 35 MW for its Kota cement plant and meets its power requirement through its captive power plants. For Aligarh unit, the power requirement is met through power purchased from the grid. The power consumption per tonne of cement production remained at around 75 Kwh/tonne which is well within the industry average (about 80 Kwh/tonne).

***Improving financial performance***

During FY16, the financial risk profile of MCL was impacted due to subdued industry scenario of the cement industry in North India mainly during the first two quarters of FY16. The financial performance of the company improved significantly in FY17, driven by substantial improvement in sales volume (about 2.8% in FY17 over FY16) along with better average sales realisations. Total operating income witnessed a marginal y-o-y increase of about 8% in FY17. However, improved sales realisations led to improvement in EBITDA (Rs.121.41 crore in FY17, as against Rs.44.84 crore in FY16) and EBITDA margin (13.36% in FY17, as against 5.33% in FY16) with consequent improvement in PAT level and PAT margin. In 9MFY18 (refers to the period from April 1 to December 31), MCL achieved a y-o-y growth of about 20% in its total operating income mainly driven by higher sales volume. However, the profitability was affected due to decline in sales realisation. In various states, including Uttar Pradesh and Rajasthan, there was a ban on river sand mining owing to environmental issues. The ban led to an increase in the cost of sand, affecting the operations of real estate developers, individual house builders and construction firms, which collectively represent majority (about 80%) of cement off-take. Further, due to PET coke ban in Delhi, UP and nearby states in October, 2017, the company was forced to use coal leading to increase in fuel cost. Moreover, increase in coal prices had a negative impact on the profitability of the company during 9MFY18. However, in January, 2018 the ban on PET coke was lifted by the Supreme Court. Further, in UP, the state government has allowed sand mining to licensed holders which are expected to fuel the cement demand situation in the state, to a reasonable extent, in near to medium term. Further, the liquidity position of the company is also comfortable as evident in the low average utilisation of bank limit to the extent of 18% in the past 12 months ended in January, 2018.

***Improvement in capital structure and debt protection parameters***

The overall gearing ratio improved from 0.92x as on March 31, 2016 to 0.79x as on March 31, 2017 on account of scheduled repayment of term loans and accretion of profit to reserves. The debt protection parameters also improved with the interest coverage ratio at 2.56x in FY17. Long-term Debt to GCA at 3.52 and Total debt to GCA at 4.31x in FY17. Long-term Debt to EBIDTA was also comfortable at 2.63x in FY17.

## Key Rating Weaknesses

***Susceptibility to volatile input prices and finished goods prices***

Limestone produced from its Kota captive mine are of inferior quality and consequently, MCL generally mixes this limestone with high grade limestone from its other captive mine at Gagrana which is about 350 Km from the factory, entailing additional transportation cost. Further, it also sources high grade limestone from the open market, and thereby gets exposed to price volatility. Despite having long term supply arrangements, the company needs to procure fly ash from the open market to meet its requirements. Partial dependence on the open market for meeting the raw material requirements exposes the company to price volatility risk. As regards fuel prices, PET Coke prices are linked to crude and accordingly remain volatile. Coal prices are also driven by market dynamics. Moreover, the cement prices are generally volatile in view of domestic infrastructure scenario, government policies and demand-supply situation in the particular geography/region, as because the cement is essentially a regional game.

***Cement being bulk product entailing higher transportation cost***

Cement industry is impacted by market dynamics in view of its bulk nature involving high transportation cost. Within the region as well, all the players in the industry incur high cost in transporting limestone from the mine to plant and delivering the produce to the distributors and/or the market. During FY17, packing, forwarding & distribution expenses of MCL formed about ~27% of the total cost while the same per tonne witnessed an improvement in FY17 to Rs.1,018, from Rs.1,097 in FY16.

***Current subdued demand for cement, although future outlook for cement is positive***

The Indian cement industry has generally been passing a bearish phase for the last few years, although the situation is varied in different geographies, majorly due to adverse scenario in the infrastructure sector. However, the Indian cement industry is the second largest after China, accounting for about 8% of the total global production capacity. Even then, the per capita consumption of cement in India is quite low vis-a-vis the world average, indicating strong demand potential in the medium to long term. Further, certain government initiatives like use of cement instead of bitumen for the construction of all new road projects, construction of toilets under the

Swachh Bharat scheme, development of cities under the Smart Cities scheme and Housing for all by 2022 are likely to auger well for the cement industry.

**Analytical Approach & Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

**About the Company**

Mangalam Cement Limited (MCL), incorporated in October 1976, is a part of renowned B.K. Birla group. B.K. Birla group is a leading industrial group with major interests in tea, coffee, cement, timber, tyres etc. MCL started its operations in March, 1981 with the commissioning of cement manufacturing plant (unit I) with dry process technology at Aditya Nagar, Morak, Dist. Kota, Rajasthan, and is engaged in manufacturing of cement. Over the years, the company has increased its production capacity and currently, it has an aggregate installed capacity of 4 MTPA for cement production with its plants located at Kota, Rajasthan and Aligarh (grinding unit). The company started its Aligarh unit from September, 2016. MCL has backward integration by way of captive limestone mines, 35 MW (two plants with a capacity of 17.50 MW each) coal based power plants in Kota and 13.65 MW (two plants with a capacity of 6.15 MW and 7.50 MW used with the Grid on exchange basis) wind mills at Jaisalmer, Rajasthan. MCL has another, relatively small, limestone mine at Gagrana which is about 350 Km from the plant; however, it is having superior quality of limestone. The company manufactures and sells both cement and clinker. However, clinker constitutes a very small portion of MCL's overall revenue (1.5% in FY17). The company markets its products under the brand name of Birla Uttam Cement and mainly operates in Rajasthan, Uttar Pradesh, Madhya Pradesh, Delhi, Uttarakhand, Haryana and Punjab. The product mix of the company comprised PPC and OPC. In FY17, the cement sales mix comprised OPC of about 46% and PPC of the balance 54%.

**Financials (Standalone):**

**(Rs. crore)**

| For the year ended* / As On | 31-03-2016 | 31-03-2017 |
|---|---|---|
| | Audited | Audited |
| Total Operating Income | 841.76 | 908.57 |
| EBITDA | 44.84 | 121.41 |
| PAT | -21.46 | 36.63 |
| Total Debt | 428.06 | 390.86 |
| Tangible Net worth | 463.64 | 495.36 |

| For the year ended* / As On | 31-03-2016 | 31-03-2017 |
|---|---|---|
| EBITDA Margin (%) | 5.33 | 13.36 |
| PAT Margin (%) | -2.53 | 3.96 |
| Overall Gearing Ratio (x) | 0.92 | 0.79 |

*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2017-18) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2016-17 | Date(s) & Rating(s) assigned in 2015-16 | Date(s) & Rating(s) assigned in 2014-15 |
| 1. | Non-Convertible Debentures (Proposed) | Long Term | 250 | IVR AA- / Stable Outlook | | | |

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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## Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Non-Convertible Debentures (Proposed) | - | - | - | 250 | IVR AA- /Stable Outlook |