

June 25, 2024

Mahakoshal Refractories Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based - Cash credit	72.00	72.00	[ICRA]A-(Stable); reaffirmed
Long-term - Fund based - Term loan	28.70	28.70	[ICRA]A-(Stable); reaffirmed
Short-term - Non fund based - Bank guarantee	9.00	9.00	[ICRA]A2+; reaffirmed
Short-term - Non fund based - Letter of credit	4.00	4.00	[ICRA]A2+; reaffirmed
Long-term - Unallocated limits	1.30	1.30	[ICRA]A-(Stable); reaffirmed
Total	115.00	115.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for Mahakoshal Refractories Private Limited (MRPL) factors in the established track record of the company in the refractory industry for the last five decades and its ability to maintain healthy profitability across industry cycles. The ratings are also supported by MRPL's prudent approach towards capital deployment and upscaling its operations, evident from the conservative capital structure and healthy coverage metrics being maintained by the company.

MRPL's product offerings include shaped/unshaped refractories and high alumina cement, which are utilised in critical operational segments for its clientele and have long approval processes, resulting in better pricing flexibility and customer stickiness/repeat orders with majority of its customers being spread across the aluminum, steel and petrochemicals industries. MRPL operates in the domestic market as well as exports to the international markets including the European and Gulf countries. Exports accounted for ~32% (declined from 42% in FY2023) of the company's revenue in FY2024, catering mainly to the non-ferrous and petrochemical sectors that fetch better margins than the steel sector.

The ratings also derive strength from MRPL's competitive cost structure, supported by the Group's captive bauxite mines, established relationships with suppliers and proximity to raw material sources, along with its limited dependence on imports¹. This ensures that MRPL's profit margin is better than the industry average.

In FY2024, MRPL's revenue stood at Rs. 403 crore, witnessing a marginal growth of ~4% over Rs. 388 crore in FY2023. However, the operating profit margin moderated in FY2024 (around 280 basis points) compared to FY2023. This was primarily on account of lower export sales during the fiscal as the international demand was impacted due to the global geopolitical tensions and elevated levels of director remuneration for the fiscal. In FY2025, the performance is expected to improve characterised by 10-15% growth in scale and recovery of operating profit margin on account of healthy demand expected from the international customers as well as management's emphasis on efficiency improvement.

The ratings are, however, constrained by the intense competition in the industry from established players, especially in the secondary steel segment, coupled with the high working capital intensity on account of elevated inventory levels required to be maintained to enable uninterrupted operations. Additionally, MRPL is exposed to the cyclicity inherent in the end-user industries for refractories. Such risks are accentuated by the company's limited product offerings, exposing the earnings to demand fluctuations from key end-user segments, like non-ferrous and petrochemicals.

¹ MRPL's product portfolio is entirely in the non-magnesitic refractories, leading to limited dependence on imports

The Stable outlook on MRPL's ratings reflects ICRA's opinion that the company will continue to maintain a comfortable financial profile, supported by prudent capital allocation, a competitive cost structure, and its established position as a supplier of specialised refractories in the domestic and export markets.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record of operations in the refractory business – MRPL has been run by the Gugalia family since its inception in 1969 under the name - Mahakoshal Ceramics. At present, it is managed by Mr. Arvind Gugalia, the Managing Director, with other family members being actively involved in the day-to-day operations. The promoters of MRPL have been involved in the refractory business for the last five decades. The company's long presence in the industry has helped it to develop a strong network of suppliers and customers.

Competitive cost structure supporting profit margins being better than the industry average – MRPL's group company (Jiwan Lime Chemicals Pvt Ltd being closely held by the promoters) had acquired the Jariyari bauxite mine which started production in FY2022. The mine, on a steady state basis, can meet around 50% of the bauxite requirements for the Katni plant, leading to low dependence on costlier bauxite procured from external sources. Additionally, MRPL has long-standing relationships with suppliers in the local Katni market, which, along with its proximity to raw material sources, leads to continuous availability of inputs at competitive rates. Additionally, the dependence on imports is lower for MRPL compared to many other industry players as the company does not operate in the basic refractory segment (basic refractories require magnesite which is imported from China). The company's profit margins, thus, remain better than the industry average, supported by its competitive cost base.

Healthy margin profile supported by specialised product offerings; long approval process leads to better pricing flexibility due to customer stickiness – MRPL specialises in bricks for application in critical functions in the non-ferrous industry, especially for the aluminum industry (bricks for anode baking furnace) and for the petrochemical industry (bricks for CATOFIN reactor; MRPL is among a limited number of licensed suppliers of such bricks in India). Due to the critical nature of the material supplied, there is a high degree of customer stickiness, which provides pricing flexibility to MRPL.

Track record of profitable operations across business cycles – MRPL has been steadily growing its operations over the last decade, while maintaining healthy profit margins and credit metrics. The profitability for MRPL is supported by its sizeable export revenue share of the overall sales, which consist of the high-margin non-ferrous segments (primarily aluminum) primarily in European and Gulf Countries. In FY2024, the export sales decreased to 32% from 42% in FY2023 which led to slight moderation in the company operating margins, however, with anticipated recovery of export business in FY2025, the operating margins are expected to improve back to average levels. MRPL's customer profile is highly diversified with share of top-20 customers (10 each for the domestic and export segments) being less than 50% of MRPL's outstanding orderbook value as of May 2024.

Conservative capital structure with strong debt coverage metrics and business return indicators – The management follows a prudent approach towards capital allocation with low reliance on external borrowings. As on March 31, 2024, MRPL's external term debt stood at Rs. 40.3 crore. The company's leverage (including the unsecured promoter loans) remained low, characterised by total debt to OPBDITA of 1.7 times in FY2024 (1.8 times in FY2023) despite a capital expenditure of Rs. 32 crore undertaken during the fiscal. The leverage is expected to come down going forward, supported by the company's healthy profit margins and no debt-funded capital expenditure planned over the medium term.

Additionally, the coverage metrics and business return indicators remain strong, with the interest coverage and return on capital employed remaining above 6 times and 17%, respectively, over the last five years (FY2020 – FY2024). In FY2024, MRPL's revenue stood at Rs. 403 crore witnessing minimal growth of ~4% (Rs. 388 crore in FY2023), however, the operating profit

margin on the other hand witnessed moderation in FY2024 (around 280 basis points) against FY2023 levels. This was primarily on account of lower export sales during the fiscal as the international demand was impacted due to the global geopolitical tensions and elevated levels of director remuneration for the fiscal. In FY2025, the performance is expected to improve characterised by 10-15% growth in scale and recovery of operating profit margin on account of healthy demand expected from the international customers as well as management's emphasis on efficiency improvement.

Credit challenges

Intense competition in the industry, especially in the steel segment – The refractory industry remains fragmented with a sizeable presence of unorganised players and surplus capacity in certain refractory segments. In addition, competition from imported refractories remains elevated on the back of low duty protection, giving easy market access to large and established overseas refractory manufacturers. Therefore, the competitive intensity remains high, which limits the scope for significant margin expansion. However, the gradual consolidation of the domestic refractory market remains structurally positive for the sector. For MRPL, the competitive intensity is higher in the secondary steel segment, which accounts for ~25% of company's revenue. However, ICRA notes that MRPL's focus on aluminum and other specialised sectors like petrochemicals has resulted in a differentiated product portfolio, partly mitigating the competitive pressure, which, along with its low-cost position, has been the key driver behind its superior profit margins.

Limited product offerings exposing earnings to demand fluctuations from its key end-user segments – Majority of MRPL's revenue comes from aluminum, petroleum and secondary steel producers, which makes MRPL's performance highly dependent on the demand in these industries. That said, MRPL also caters to other industry segments, such as cement, fertiliser and power generation. However, the proportion of revenue from these segments remains small compared to the top 3 segments. This can lead to a steep contraction in earnings in case of any softening in demand in its primary end-user industries.

High working capital intensity – MRPL's operations remain working capital intensive primarily due to the elevated inventory levels required to be maintained for uninterrupted operations. ICRA notes that MRPL requires more than 90 different raw materials for manufacturing, some of which have long procurement lead times. This has been the key reason behind its inventory days remaining above 200 and the net working capital to operating income (NWC/OI) ratio remaining above 50% since FY2020. MRPL's operations are, however, supported by adequate fund-based working capital lines of Rs. 72 crore with the bank with a buffer of Rs. 11 crore as of May 2024 end.

Liquidity position: Adequate

MRPL's liquidity position remains adequate, supported by healthy retained cash flows and undrawn working capital bank lines of Rs. 11 crore as of end-May 2024. The company's cash and bank balances have historically remained moderate. However, the liquidity is supported by the company's calibrated growth plans, healthy profit margins and financial flexibility due to its low leverage.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant scale up in the revenues and profitability of the company, while maintaining healthy liquidity and debt protection metrics on a sustained basis.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company leading to deterioration in debt protection metrics. Further, any sizeable debt funded capex or higher working capital requirement leading to an adverse impact on the liquidity position of the company can trigger a downward rating revision. Specific credit metric for downgrade is Total Debt/OPBITDA increasing to more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MRPL

About the company

Mahakoshal Refractories Pvt. Ltd. (MRPL), erstwhile Mahakoshal Ceramics, was established in 1969. It has an annual production capacity of 1,00,000 MT shaped refractories (bricks), 96,000 MT unshaped refractories and 24,000 MT high alumina cement (HAC). MRPL has its own facility for the calcination of different refractory raw materials with full control over the input minerals sourced from its own mines as well as from selected nearby mines. The primary plant is in the Katni district of Madhya Pradesh in central India. MRPL also has operations at Gudri – about 17 km away from the Katni plant - and at Bhachau in Gujarat near the Mundra port.

Key financial indicators (audited)

MRPL Standalone	FY2022	FY2023	FY2024*
Operating income	317.7	388.0	402.7
PAT	32.0	45.4	35.6
OPBDIT/OI	16.7%	19.3%	16.5%
PAT/OI	10.1%	11.7%	8.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.9	0.6
Total debt/OPBDIT (times)	1.6	1.8	1.7
Interest coverage (times)	11.0	8.6	6.1

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 25, 2024	-	Mar 30, 2023	-
1 Fund based - Cash credit	Long - term	72.00	50.50	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	-
2 Fund based - Term loan	Long - term	28.70	28.70	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	-
3 Non fund based - Bank guarantee	Short-term	9.00	-	[ICRA]A2+	-	[ICRA]A2+	-
4 Non fund based - Letter of credit	Short-term	4.00	-	[ICRA]A2+	-	[ICRA]A2+	-
5 Unallocated limits	Long - term	1.30	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund based - Cash credit	Simple
Long-term - Fund based - Term loan	Simple
Short-term - Non fund based - Bank guarantee	Very Simple
Short-term - Non fund based - Letter of credit	Very Simple
Long-term - Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long -term - Fund based - Cash credit	NA	NA	NA	72.00	[ICRA]A-(Stable)
NA	Long-term - Fund based - Term loan	FY2020	NA	FY2028	28.70	[ICRA]A-(Stable)
NA	Short-term - Non fund-based - Bank guarantee	NA	NA	NA	9.00	[ICRA]A2+
NA	Short-term – Non-fund based - Letter of credit	NA	NA	NA	4.00	[ICRA]A2+
NA	Long-term - Unallocated limits	NA	NA	NA	1.30	[ICRA]A-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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