

Meghalaya Cements Limited

April 06, 2018

Summary of rated instruments

| Instrument | Previous Rated Amount(Rs. crore) | Current Rated Amount(Rs. crore) | Rating Action |
|----------------------------|----------------------------------|---------------------------------|--|
| Term Loan | 35.00 | 8.00 | [ICRA]A+ (Stable) upgraded from [ICRA]A (Stable) |
| Commercial Paper programme | 50.00 | 0.00 | [ICRA]A1 withdrawn |
| Total | 85.00 | 8.00 | |

Rating action

ICRA has upgraded the long-term rating from [ICRA]A (pronounced ICRA A) to [ICRA]A+ (pronounced ICRA A plus)¹ assigned to the Rs. 8-crore² term loans of Meghalaya Cements Limited (MCL). The outlook on the long-term rating is Stable. ICRA has withdrawn the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 50.00-crore commercial paper programme, as there is no amount outstanding against the rated instrument.

Rationale

For arriving at the ratings, ICRA has combined the financial and business risk profile of MCL and Topcem India, a partnership firm, on account of the corporate guarantee extended by MCL for the bank facilities of Topcem India, in addition to common management and significant operational linkages. The rating upgrade takes into account the improvement in the consolidated financial performance during 9M FY2018 as reflected by healthy debt-coverage indicators of the company in the current year and improvement in capital structure with the reduction in long-term debt on account of prepayments. MCL's interest cover improved to around 8 times during 9M FY2018 from 4.8 times in FY2017, while on a consolidated basis, interest cover rose to around 10 times in 9M FY2018 from 5.1 times in FY2017. As of end-CY2017, the estimated gearing stood at 0.2 times against 0.3 times at the end of FY2017. The rating continued to factor in the established market position of the Group in the cement industry in North-East India, experience of the management, integrated nature of operations and close proximity to raw-material sources. The rating is also supported by various fiscal incentives that MCL is entitled to under the NEIIPP³, 2007, which should support its profitability going forward. The rating is, however, constrained by the inherent cyclicity in the cement industry, which leads to volatility in profits and cash flows and geographical concentration of sales in the North Eastern region. Although the company is an established player in the North East region, the scale of operations remains modest, especially when compared to some of the other leading players in the region. ICRA, however, expects the demand-supply scenario in the region to remain favourable, at least over the medium term, given the thrust on infrastructure development in the area and limited capacity addition on the anvil.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

³ North East Industrial and Investment Promotion Policy

Outlook: Stable

ICRA believes MCL will continue to benefit from the established presence in the cement industry in the North East region. The outlook may be revised to 'Positive' if there is a considerable increase in the scale of operations leading to a healthy growth in turnover and improvement in profitability and return indicators on a sustainable basis while maintaining a prudent capital structure. The outlook may be revised to 'Negative' if the supply-demand imbalance results in a drop in prices and, therefore, weakens profitability and coverage indicators of the company. ICRA notes that MCL's ability to increase the scale of operations as well as timeliness of receipt of the balance outstanding subsidies for the Group entity would be key rating sensitivities.

Key rating drivers

Credit strengths

Established track record of the promoters in the north-eastern cement industry - MCL, along with Topcem India, has a long track record and an established presence in the cement industry in North East India. MCL's product range consists of Portland Pozzolana Cement (PPC) and Ordinary Portland Cement (OPC), which is marketed under the brand 'Topcem Cement'.

Integrated nature of operations and favourable location of plants provide easy access to raw materials – MCL enjoys the benefits of vertically-integrated operations with its 8,58,000-TPA clinker plant, a 10-MW captive power plant and captive limestone and shale mines. MCL also caters to the clinker requirement of Topcem India for manufacturing cement. The close proximity of the captive mines to MCL's manufacturing facilities provides easy accessibility, resulting in overall lower landed costs of raw materials.

Conservative capital structure and comfortable debt-coverage indicators - The company continued to have a conservative capital structure as reflected by a gearing of 0.3 times as on March 31, 2017. In the current year, prepayment of term loans contracted for funding the capex has resulted in low debt levels for the company which in turn led to an improvement in the debt-coverage indicators of the company. Interest cover increased from 4.8 times in FY2017 to 8 times in 9M FY2018. On a consolidated level, too, interest cover stood at a healthy level of 10 times in 9M FY2018.

Fiscal benefits and subsidies under NEIIPP, 2007 supports profitability - MCL and Topcem India are eligible for various fiscal benefits, which include GST refund (29% of IGST and 58% of CGST) and interest subsidy (on working capital). MCL is entitled to GST refunds for a further period of ten years, given the expansion of its cement capacity in FY2017. While entitlement to transport subsidies has expired for both the Group entities, other benefits are expected to continue to support the company/group's profitability.

Credit challenges

Geographical concentration of sales in North East India – MCL and Topcem India are exposed to geographical concentration risks as a major part of its sales are made in North East India. The company caters primarily to the north eastern states. Among the north eastern states, sales are primarily concentrated in Assam, which account for 50% of the total sales.

Exposure to the cyclical nature inherent in the cement industry - The company is exposed to the cyclical nature inherent in the cement industry which leads to volatility in the profitability and cash flows of most players, including MCL. However, the demand-supply scenario in the region is expected to remain favourable at least over the medium term, given the thrust on infrastructure development in the area and limited capacity addition on the anvil.

Analytical approach: For arriving at the ratings, ICRA has combined the financial and business risk profile of Meghalaya Cements Limited and Topcem India, a partnership firm, on account of the corporate guarantee extended by MCL for the bank facilities of Topcem India, in addition to common management and significant operational linkages.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Cement Industry](#)

[ICRA Policy on Withdrawal and Suspension of Credit Rating](#)

About the company:

MCL, incorporated in June 2003, manufactures PPC and OPC cement under the brand name 'Topcem Cement'. At present, MCL has a clinker capacity of 8,58,000 tonnes per annum (TPA), cement capacity of 8,58,000 TPA and a 10-MW captive power plant, located in Meghalaya.

MCL reported a net loss of Rs. 2.29 crore on an operating income of Rs. 332.34 crore in FY2017 compared to a net profit of Rs. 9.35 crore on an operating income of Rs. 327.61 crore in FY2016. Although MCL reported a profit before tax (PBT) of Rs. 13.98 crore in FY2017 (compared to a PBT of Rs. 9.57 crore in FY2016), higher income tax expenses on account of certain disallowances u/s 43B of the Income Tax Act, 1961, led to a net loss of Rs. 2.29 crore during FY2017.

On a provisional basis, during 9M FY2018, the company reported a net profit of Rs. 17.82 crore on an operating income of Rs. 291.04 crore.

Key financial indicators (audited)

| | FY 2016 | FY 2017 |
|------------------------------|----------------|----------------|
| Operating Income (Rs. crore) | 327.61 | 332.34 |
| PAT (Rs. crore) | 9.35 | -2.29 |
| OPBDIT/ OI (%) | 13.16% | 12.54% |
| RoCE (%) | 4.06% | 4.90% |
| Total Debt/ TNW (times) | 0.21 | 0.26 |
| Total Debt/ OPBDIT (times) | 1.84 | 2.25 |
| Interest coverage (times) | 5.34 | 4.80 |
| NWC/ OI (%) | 36% | 31% |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| | | Current Rating (FY2019) | | | Chronology of Rating History for the past 3 years | | |
|------------------------------|------------|--------------------------|-------------------------------|----------------------------|---|---------------------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating | Date & Rating in FY2018 | Date & Rating in FY2017 February 2017 | Date & Rating in FY2016 |
| Instrument | Type | | | April 2018 | | | |
| 1 Term Loan | Long Term | 8.00 | 7.50 | [ICRA]A+ (Stable) upgraded | | [ICRA]A (Stable) assigned | |
| 2 Commercial Paper programme | Short Term | 50.00 | - | [ICRA]A1 withdrawn | | [ICRA]A1 assigned | |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|----------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term Loan | FY2017 | - | November 2022 | 8.00 | [ICRA]A+ (Stable) |
| NA | Commercial Paper programme | - | - | - | 50.00 | [ICRA]A1 withdrawn |

Source: Meghalaya Cements Limited

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