

# Ratings



## Rating Rationale

July 05, 2019 | Mumbai

### Mangalam Organics Limited

*Ratings upgraded to 'CRISIL A-/Stable/CRISIL A2+'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.116.5 Crore (Enhanced from Rs.77 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')</b>
<b>Short Term Rating</b>	<b>CRISIL A2+ (Upgraded from 'CRISIL A2')</b>

*1 crore = 10 million*

*Refer to annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL has upgraded its rating on the bank facilities of Mangalam Organics Limited (MOL) to '**CRISIL A-/Stable/CRISIL A2+**' from '**CRISIL BBB+/Stable/CRISIL A2**'.

The rating upgrade reflects improvement in MOL's business risk profile. Revenue grew 75% to Rs 426 crores in fiscal 2019 and operating margin to 25.9% in fiscal 2019 from 10.7% in fiscal 2018. Net cash accrual, therefore, increased substantially more than expected, to Rs 77.8 crore in fiscal 2019 from Rs 20 crore in fiscal 2018, backed by higher realisation, and efficiencies achieved on account of de-bottlenecking exercises. While revenue may increase further, driven by enhanced capacity, operating margin could moderate over the medium term, but still exceed the fiscal 2018 level. Accrual is, therefore, expected to remain steady.

The ratings continue to reflect the extensive experience of the promoters and established market position in the camphor industry. The ratings also factor in the healthy financial risk profile despite proposed debt funded capex, with healthy capital structure and comfortable debt protection metrics. These rating strengths are partially offset by susceptibility to volatile raw material prices and intense competition from domestic and foreign manufacturers.

#### Key Rating Drivers & Detailed Description

##### **Strengths**

**\* Promoters' extensive experience and MOL's established market position:** MOL benefits from its promoters' extensive experience in the camphor industry, and its position as one of the leading players in the Indian camphor market. The Dujodwala family has experience of around five decades and healthy relationship with customers and suppliers. Capex of Rs 60 crore (funded by Rs 40 crore of term debt) is being carried out to enhance the capacity by around 5000 tonne per annum. The new capacity is expected to commence operations by end of October 2019. Further, India's camphor industry benefits from the lower imports from China and healthy domestic demand, leading to improvement in realisations. While, increase in domestic capacity is expected to moderate realisation, it is continued to be supported by growth in domestic demand and lower import from China. MOL being one of the large player in India is expected to continue to benefit from the

favourable market conditions and enhanced capacity.

**\* Healthy financial risk profile:** The financial risk profile is supported by comfortable network and debt protection metrics. As on March 31, 2019, network improved to Rs 121.6 crore from Rs 61.2 crore the previous year, backed by improved accruals. Despite the ongoing capex, leverage remains low, with a total outside liability to adjusted network (TOLANW) ratio of 0.59 time as of March 2019, expected to remain at current level over the medium term. Debt protection metrics are healthy with interest coverage and net cash accrual to total debt ratios of 30 times and 1.56 times respectively, during fiscal 2019.

### Weaknesses

#### \* Susceptibility to volatility in raw material prices

Operating margin is susceptible to fluctuations in raw materials prices (alpha pine and gum turpentine), which account for 60-65% of total sales. Most of the raw materials are imported from Indonesia, Brazil, Russia and Europe, and their availability and prices are subject to demand and supply situation. Input prices have increased by around 65% in fiscal 2018, and remained stable in fiscal 2019. However, operating margin improved due to significant increase in realisation. Business risk profile continues to be susceptible to changes in input prices and will remain a major rating sensitivity factor.

**\* Intense competition from the domestic manufacturers as well as revival of imports from China:** The camphor industry is an intensely competitive business, with presence of many domestic players as well as foreign players, especially from China. Due to the favourable market conditions, players are going ahead with capacity expansion, increasing the supply and intensifying competition among players ' likely to lead to moderation in realisation. Revival of imports from China, may also have an adverse impact on the entire industry.

### Liquidity

Net cash accrual was Rs 77.8 crore in fiscal 2019 against debt obligations of Rs 0.2 crore. Accrual is expected around Rs 70 crore per fiscal over the medium term against maturing debt of Rs 0.4 crore and Rs 8.4 crore, respectively, in fiscals 2020 and 2021. Capital expenditure (capex) of around Rs 60 crore is being undertaken between fiscals 2019 and 2020, funded by term debt of Rs 40 crore. Bank limit was utilised at 61% on average over the 12 months through May 2019. Current ratio was 2.3 times as on March 31 2019, and should remain above 2 times over the medium term. Cash and bank balances were a modest at Rs 2.53 crore as on March 31, 2019.

### Outlook: Stable

CRISIL believes MOL's business risk profile will benefited from the promoters experience, enhanced capacities and favourable market conditions. The outlook may be revised to 'Positive' if revenue, profitability and cash accrual significantly exceeds expectations, strengthening the financial risk profile. The outlook may be revised to 'Negative' if lower revenue and profitability, against expectation or significant stretch in working capital cycle, or a large, debt-funded capex above expectations leading to weakens financial risk profile.

### About the Company

Incorporated in 1981, MOL (formerly, Allied Collides Pvt Ltd), is based in Mumbai, and manufactures and trades in fine specialty chemicals, including camphor, resins, and dipentene, with total installed capacity of about 16,000 tonne per annum. Operations are managed by Mr Kamal Kumar Dujodwala.

MOL was listed on Bombay Stock Exchange in 2013.

### Key Financial Indicators

Particulars	Unit	2019	2018
Reported revenue	Rs. Cr.	426.26	242.74

<b>Reported Profit After Tax</b>	<b>Rs. Cr.</b>	<b>72.66</b>	<b>14.46</b>
<b>PAT Margins</b>	<b>%</b>	<b>17.05</b>	<b>5.96</b>
<b>Adjusted Debt/Adjusted Networkth</b>	<b>Times</b>	<b>0.41</b>	<b>0.65</b>
<b>Interest coverage</b>	<b>Times</b>	<b>30.39</b>	<b>10.28</b>

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Cr)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	22.0	CRISIL A-/Stable
NA	Letter of Credit	NA	NA	NA	55.0	CRISIL A2+
NA	Term Loan	NA	NA	Apr-2020	39.5	CRISIL A-/Stable

**Annexure - Rating History for last 3 Years**

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund-based Bank Facilities</b>	LT/ST	61.50	CRISIL A-/Stable			28-09-18	CRISIL BBB+/Positive	31-08-17	CRISIL BBB+/Stable		--	--
<b>Non Fund-based Bank Facilities</b>	LT/ST	55.00	CRISIL A2+			28-09-18	CRISIL A2		--		--	--

All amounts are in Rs.Cr.

**Annexure - Details of various bank facilities**

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	22	CRISIL A-/Stable	Cash Credit	22	CRISIL BBB+/Positive
Letter of Credit	55	CRISIL A2+	Letter of Credit	55	CRISIL A2
Term Loan	39.5	CRISIL A-/Stable	--	0	--
<b>Total</b>	<b>116.5</b>	<b>--</b>	<b>Total</b>	<b>77</b>	<b>--</b>

**Links to related criteria**

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

**For further information contact:**

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Saman Khan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 3895 B: +91 22 3342 3000 <a href="mailto:saman.khan@crisil.com">saman.khan@crisil.com</a></p> <p><b>Naireen Ahmed</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1818 B: +91 22 3342 3000 <a href="mailto:naireen.ahmed@crisil.com">naireen.ahmed@crisil.com</a></p> <p><b>Vinay Rajani</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 <a href="mailto:vinay.rajani@ext-crisil.com">vinay.rajani@ext-crisil.com</a></p>	<p><b>Mohit Makhija</b> Director - CRISIL Ratings <b>CRISIL Limited</b> B:+91 124 672 2000 <a href="mailto:mohit.makhija@crisil.com">mohit.makhija@crisil.com</a></p> <p><b>Jumana Badshah</b> Associate Director - CRISIL Ratings <b>CRISIL Limited</b> D:+91 22 3342 8324 <a href="mailto:Jumana.Badshah@crisil.com">Jumana.Badshah@crisil.com</a></p> <p><b>Athul Sreelatha</b> Rating Analyst - CRISIL Ratings <b>CRISIL Limited</b> D:+91 22 3342 3046 <a href="mailto:Athul.Sreelatha@crisil.com">Athul.Sreelatha@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a></p>



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