

Rating Rationale

February 07, 2020 | Mumbai

Mangalam Organics Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.168 Crore (Enhanced from Rs.116.5 Crore)
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A-/Stable/CRISIL A2+' ratings on the bank facilities of Mangalam Organics Limited (MOL)

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

Key Rating Drivers & Detailed Description**Strengths**

* **Promoters' extensive experience and established market position:** MOL benefits from its promoters' extensive experience in the camphor industry, and its position as a leading player in the domestic market. The Dujodwala family has experience of around five decades and healthy relationships with customers and suppliers. Furthermore, India's camphor industry benefits from lower import from China and healthy domestic demand, leading to improved realisation. While increase in domestic capacity and expected increase in import will moderate realisation, it is continued to be supported by growth in domestic demand. Being a large player in India, MOL will likely 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 rose to Rs 121.6 crore from Rs 61.2 crore in the previous year, backed by increased accrual. Despite the ongoing capex, leverage remains low, with total outside liabilities to adjusted network ratio at 0.59 time as on March 31, 2019, and expected below 0.5 times over the medium term. Debt protection metrics are healthy with interest coverage and net cash accrual to total debt ratio at 30 times and 1.56 times, respectively, during fiscal 2019, and are likely to sustain because of healthy profitability.

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 raw material. 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 were volatile in the past two years. Business risk profile continues to be susceptible to changes in input prices and will remain a major rating sensitivity factor.

* **Intense competition from domestic manufacturers as well as revival of import from China:** The camphor industry is an intensely competitive business, with presence of many domestic players as well as foreign players. Due to favourable market conditions, players are expanding capacity, thereby increasing supply and intensifying competition, which will likely moderate realisation. Revival of import from China may also have an adverse impact on the entire industry.

Liquidity Adequate

Net cash accrual was Rs 77.8 crore in fiscal 2019 against debt obligation of Rs 0.2 crore. Accrual is expected at Rs 60-70 crore per fiscal over the medium term against debt obligation of Rs 3 crore and Rs 4.3 crore in fiscals 2020 and 2021, respectively. The company is in final stage of completing capacity expansion and additional capital expenditure (capex) will be undertaken between fiscals 2020 and 2021, funded through term debt of 40-50%. Bank limit was utilised at 72% on average over the 12 months through December 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 balance was modest at Rs 2.53 crore as on March 31, 2019. Enhancement of funded limits by Rs 25 crore also supports liquidity.

Outlook: Stable

CRISIL believes MOL will continue to benefit from the promoters' experience, enhanced capacity, and favourable market conditions.

Rating sensitivity factors

Upward factors

- * Sustained growth of 20-25% driven by 10-15% revenue contribution from the retail segment and growth in volume, and operating margin sustained above 20%
- * Sustained financial risk profile and debt protection metrics with total outside liabilities to tangible network maintained below 0.5 times.

Downward factors

- * Sustained decline in revenue by 15-20% or in operating margin below 15%, leading to significant decline in cash accrual
- * Stretch in working capital cycle or larger-than-expected debt-funded capex or cost or time overrun in ongoing capex, weakening the 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. Operations are managed by Mr Kamal Kumar Dujodwala.

MOL was listed on the Bombay Stock Exchange in 2013.

Key Financial Indicators

Particulars	Unit	2019	2018
Reported revenue	Rs Cr.	426.26	242.74
Reported profit after tax (PAT)	Rs Cr.	72.66	14.46
PAT margin	%	17.05	5.96
Adjusted debt/adjusted networkth	Times	0.41	0.65
Interest coverage	Times	30.39	10.28

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	47	CRISIL A-/Stable
NA	Letter of Credit	NA	NA	NA	80	CRISIL A2+
NA	Loan Equivalent Risk Limits	NA	NA	NA	1.5	CRISIL A2+
NA	Term Loan	NA	NA	Apr-2023	39.5	CRISIL A-/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	88.00	CRISIL A-/Stable/ CRISIL A2+			05-07-19	CRISIL A-/Stable	28-09-18	CRISIL BBB+/Positive	31-08-17	CRISIL BBB+/Stable	--
Non Fund-based Bank Facilities	LT/ST	80.00	CRISIL A2+			05-07-19	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	47	CRISIL A-/Stable	Cash Credit	22	CRISIL A-/Stable
Letter of Credit	80	CRISIL A2+	Letter of Credit	55	CRISIL A2+
Loan Equivalent Risk Limits	1.5	CRISIL A2+	Term Loan	39.5	CRISIL A-/Stable
Term Loan	39.5	CRISIL	--	0	--

		A-/Stable			
Total	168	--	Total	116.5	--

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](#)

[CRISILs Bank Loan Ratings](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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