March 30, 2023

Mahakoshal Refractories Private Limited: [ICRA]A- (Stable)/[ICRA]A2+; assigned

Summary of rating action

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

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to 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 the critical operational segments for its clientele and have long approval processes, leading to 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 European and Gulf countries. The exports account for around 50% of the company's revenues, and are primarily for the non-ferrous/ petrochemical sectors, which fetches better margins in comparison to supplies to 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 limited dependence on imports[1]. This has supported MRPL's profit margins being better than the industry average.

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

ICRA notes that MRPL is upscaling its refractory capacity by ~15,600 metric tonne per annum (MTPA) and high alumina cement by 6,000 MTPA, which are expected to be commissioned in FY2024. This would further support the volume growth for the company, going forward. The timely commissioning of the capacities in the budgeted time and costs will remain a key monitorable.

[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, 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 is run by the Gugalia family since its inception in 1969 under the name Mahakoshal Cermaics. It is presently managed by Mr. Arvind Gugalia as 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 lower dependence for 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 input 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 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 industries 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 around 50% of the overall sales, which consist of the high-margin non-ferrous segments (primarily aluminum) primarily in European and Gulf Countries. MRPL's customer base is highly diversified with share of top-20 customers (10 each for the domestic and export segments) contributing to less than 20% of MRPL's revenue in FY2022.

Healthy growth supported by growing demand in domestic and overseas markets; revenue growth expected to continue supported by additional capacity coming onstream in FY2024 – MRPL has steadily increased its scale of operations with an absolute growth in sales volume to ~94,000 metric tonnes (MT) in FY2022 from ~61,000 MT in FY2018. This has been supported by continuous growth in its nameplate installed capacity to 234,000 MTPA at present from 109,600 MTPA in FY2018. MRPL has taken up expansion of its refractory capacity by an additional 15,600 MTPA in Madhya Pradesh and high alumina cement by 6,000 MTPA in Gujarat. The overall expenditure for the expansion is budgeted at Rs. 35 crore and the capacities are expected to be commissioned in FY2024. MRPL has got a bank sanction of Rs. 20 crore for financing the expansion and the balance would be funded by internal accruals. The timely commissioning of the upcoming capacities in the budgeted time and costs will remain a key monitorable.

Conservative capital structure with strong debt coverage metrics and business return indicators – The management follows a prudent approach towards capital allocation with a low reliance on external borrowings. As on September 30, 2022, MRPL's external term debt stood at Rs. 28.2 crore. The leverage for the company (including the unsecured promoter loans) remained low characterised by Total Debt to OPBDITA at 1.6 times in FY2022, and despite the growth plans, the leverage is expected to remain between 1.3-1.6 times in FY2023P/ FY2024P, supported by the company's healthy profit margins. Additionally, the coverage metrics and business return indicators remain strong, characterised by interest coverage and return on capital employed remaining above 6 times and 18%, respectively, over the last five years (FY2018 – FY2022).

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 scope for significant margin expansion. However, the gradual consolidation of the domestic refractory market remains structurally positive for the sector. For MRPL, competitive intensity is specially 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 resulted in a differentiated product portfolio, partly mitigating competitive pressures, 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 – The majority of the revenue for MRPL 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 including cement, fertilizer, and power generation. However, the proportion of revenues from these segments remain small compared to the top 3 segments. This can potentially lead to a steep contraction in earnings in case of any softening in demand from its primary end-user industries.

High working capital intensity – MRPL's operations remain working capital intensive primarily due to elevated inventory levels required to be maintained for uninterrupted operations. ICRA notes that MRPL requires more than ninety 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 net working capital to operating income (NWC/OI) ratio remaining above 50% since FY2020. MRPL's operations are, however, supported by adequate working capital lines available with the bank, which have increased to Rs. 72 crore (enhanced by Rs. 15 crore) in January 2023.

Liquidity position: Adequate

MRPL's liquidity position remains **adequate**, supported by healthy retained cash flows and undrawn working capital bank lines of Rs 20 crore as of end-February 2023. The company's cash and bank balances historically remain moderate. However, the liquidity is supported by the company's calibrated growth plans, healthy profit margins, and financial flexibility due to its low leverage levels.

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) (formerly known as Mahakoshal Ceramics) was established in 1969. MRPL offers shaped refractories (bricks), unshaped refractories, and high alumina cement (HAC), with an annual production capacity of ~2,34,000 MTPA. The primary plant is at 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, Gujarat near Mundra Seaport.

Key financial indicators (audited)

MRPL Standalone	FY2021	FY2022	9MFY2023
Operating income	208.5	317.7	285.0
PAT	22.7	32.0	-
OPBDIT/OI	18.7%	16.7%	19.3%
PAT/OI	10.9%	10.1%	-
Total outside liabilities/Tangible net worth (times)	1.0	0.7	-
Total debt/OPBDIT (times)	2.2	1.6	-
Interest coverage (times)	8.1	11.0	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 30, 2023	-	-	-
1	**Non Fund Based-Bank Guarantee**	short term	9.00	-	**[ICRA]A2+**	-	-	-
2	**Unallocated Limits**	Long term	1.30	-	**[ICRA]A-(Stable)**	-	-	-
3	**Fund Based-Term Loan**	Long term	28.70	28.20	**[ICRA]A-(Stable)**	-	-	-
4	**Fund Based-Cash Credit**	Long term	72.00	-	**[ICRA]A-(Stable)**	-	-	-
5	**Non Fund Based-Letter of Credit**	short term	4.00	-	**[ICRA]A2+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term-Non Fund Based-Bank Guarantee	Very Simple
Long Term-Unallocated Limits	Not applicable
Long Term-Fund Based-Term Loan	Simple
Long Term-Fund Based-Cash Credit	Simple
Short Term-Non Fund Based-Letter of Credit	Very Simple

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	Short Term-Non Fund Based-Bank Guarantee	NA	NA	NA	9.00	[ICRA]A2+
NA	Long Term-Unallocated Limits	NA	NA	NA	1.30	[ICRA]A-(Stable)
NA	Long Term-Fund Based-Term Loan	FY2020	NA	FY2028	28.70	[ICRA]A-(Stable)
NA	Long Term-Fund Based-Cash Credit	NA	NA	NA	72.00	[ICRA]A-(Stable)
NA	Short Term-Non Fund Based-Letter of Credit	NA	NA	NA	4.00	[ICRA]A2+

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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