

**Rating Rationale**

**Balaji Cement Industries Private Limited**

**Rating**

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,018.53	CARE-NP BB [Double B]	Assigned
Long Term Bank Facilities (Proposed)	176.68	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	940.30	CARE-NP A4 [A Four]	Assigned
Short Term Bank Facilities (Proposed)	864.49	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>3,000.00</b> <b>(Rs. Three Thousand Million Only)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned Rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Balaji Cement Industries Private Limited (BCPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of BCPL is constrained by project stabilization risk although low project implementation risk, financial closure not achieved for part of the total project cost, exposure to volatile interest rates, lack of backward integration and raw material price volatility risk. The ratings also factor in presence in highly fragmented and competitive nature of cement industry.

The ratings, however, derive strength from experienced promoters in the manufacturing industries including cement, expected growth in demand for cement products in the country in the long term and locational advantage of the plant site.

Timely financial closure for the remaining debt portion, completion of the project within the cost estimates and satisfactory operations thereafter as envisaged are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Project stabilisation risk, although low project implementation risk***

The project is almost in completion stage as ~87% of the project has been completed in terms of cost till March 05, 2019. Major works related to the project has been completed till date and cold trial has also been conducted. The plant is expected to be operational from Mid-April 2019. However, smooth and satisfactory operations of the project are yet to be seen. Timely completion

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

of the project within the cost estimates and satisfactory operations thereafter as envisaged are the key rating sensitivities.

***Financial closure not achieved for part of the total project cost***

The envisaged total cost of the project is Rs. 1,848 Million which is expected to be funded through term loan from banks for an amount of Rs. 1195 Mn and balance Rs. 652 Mn will be funded through equity share capital and unsecured loans in debt equity ratio of 65:35. Banks have already sanctioned Rs. 1,019 Mn term loans towards the project cost via consortium financing. The arrangement for the remaining bank financing towards the remaining project cost is under process. BCPL has already incurred Rs.1608 Mn on the project till March 05, 2019 and the same is funded through debt of Rs.991 Mn, equity of Rs.609 Mn and balance amount through capital creditors.

***Exposure to volatile interest rates***

Nepalese banking sector fix interest rates on lending based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, project funding from Banks and Financial Institutions are exposed to volatile interest rate.

***Lack of backward integration and Raw material price volatility risk***

BCPL will be engaged in producing cement and does not possess its own clinker unit. Hence, it has to procure clinker from other cement manufacturing units in Nepal and imports from India. The companies in Nepal are manufacturing its own clinker and dependence on the import of clinker has reduced substantially over the period. During first 7 months of FY19, the import of clinker has declined by ~30% to Rs. 9.71 Bn as compared to import during first 7 months of FY18. Clinker manufacturing units will have added cost competitive advantage over the standalone grinding units. BCPL will mainly use clinker, slag, flyash, gypsum etc. as the major raw materials. Raw material cost continues to be the major cost component of BCPL. Hence, any adverse movement in raw material price without any corresponding movement in finished goods price is expected to affect the profitability of the company. The ability of the company to pass through adverse changes in raw material prices to the customers will be the key rating sensitivities.

***Presence in highly fragmented and competitive nature of cement industry***

BCPL is operating in a highly competitive market, dominated by the large cement manufactures with wide brand acceptability. There are more than 50 cement factories operating in the country that produce 160 Million bags (8.5 Million metric tons) of cement annually. Further, many cement factories that are under construction will come into operation soon and other domestic cement factories are also expanding their production capacity which will intensify the competition. Given the fact that the entry barriers to the industry are low, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of cement industry is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry.

**Key Rating Strengths*****Experienced promoters in the manufacturing industries***

BCPL is promoted by industrialists and traders of Nepal, who are involved in manufacturing of cement, agro processing, packaging, textiles, mattresses etc. and trading of steel, building construction material, industrial raw materials etc. The company is managed under the overall guidance of its Board of Directors (BoD) who possesses wide experience in the related field. Mr. Rahul Kumar Agrawal is the Chairman and Mr. Gaurav Agrawal Gadia is the Managing Director of the Company. Mr. Rahul has been involved in family business since 22 years as Managing Director of Shiv Shakti Group, engaged in manufacturing of plastic fabric, packaging, soap and agriculture based products (Rice, edible oils). Mr. Gaurav has 13 years' experience in textiles industry, import of industrial raw materials & readymade garments. Mr. Hemant Kumar Agrawal, one of the major shareholders, is also one of the directors of BCPL. Mr. Hemant has 34 years' experience in cement manufacturing and steels trading business and is also the managing director of Nepal Ambuja Cement Udhyog Pvt. Ltd.

***Demand for cement products in the country expected to grow in the long term***

It is expected that the demand for cement in Nepal will exceed 10 Mn tons per year by 2023. Expected stabilizing political environment, coupled with pressure from the population to complete vital construction projects in the aftermath of the 2015 earthquake, as well as transportation and energy infrastructure, will further accelerate this upward trend in domestic cement consumption. Apparent cement consumption in Nepal is estimated to be around 8 Million tons of cement during FY18. Further, the Trade and Export Promotion Centre's data shows Nepal has imported cement and clinker amounting Rs. 31.33 Billion during FY18. The Nepalese

economy has gone through several highs and lows, having been impacted by natural disasters, political instability and protests. However, the government's continued thrust on the construction, infrastructure development and power sector and targeted GDP growth of 8% is likely to benefit the cement manufacturers like BCPL.

### ***Locational advantage of the plant site***

The plant is located in the western region of Nepal. It is located at a distance of 65 kms from Butwal city and at a distance of 80 kms from one of the biggest industrial belts in Nepal (Bhairawa). On the other side it is at a close distance (17 kms) from the Indian Border of Uttar Pradesh. Being located nearby Indian border, BCPL can import its raw material requirements with low transportation costs. Also it gives the plant an opportunity to market its products to the western, mid-western and central part of Nepal as the costs for transporting cement will be less compared to the industries which are in far eastern Nepal or far western Nepal.

### **About the Company**

Balaji Cement Industries Private Limited (BCPL) is a private limited company, established in May 2016, promoted by the individuals involved in cement industry and other manufacturing industries, for setting up clinker grinding plant at Kapilvastu District of Nepal. The company is setting up a clinker grinding unit to manufacture cement with capacity of 1400 metric tons per day which is expected to come in operation during April 2019. BCPL will manufacture Portland Pozzolana Cement (PPC), Portland Slag Cement (PSC) and Ordinary Portland Cement (OPC).

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**Annexure 1: Details of the Facilities rated**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Term Loan	1,011.00	CARE-NP BB
Long Term Bank Facilities (proposed)	Term Loan	176.68	CARE-NP BB
Long Term Bank Facilities	Hire Purchase Loan	7.53	CARE-NP BB
Short Term Bank Facilities	Overdraft Loan	90.00	CARE-NP A4
Short Term Bank Facilities	Short Term Loan/ Trust Receipt Loan	350.00	CARE-NP A4
Short Term Bank Facilities	Working Capital Loan	300.00	CARE-NP A4
Short Term Bank Facilities (Proposed)	Short Term Loan/ Trust Receipt Loan	864.49	CARE-NP A4
Short Term Bank Facilities	Letter of Credit	200.00	CARE-NP A4
Short Term Bank Facilities	Bank Guarantee	0.30	CARE-NP A4
<b>Total</b>		<b>3,000.00</b>	