

## Bhugarbha Cement Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,471.63	CARE-NP B- [Single B Minus]	Assigned
Short Term Bank Facilities	778.37	CARE-NP A4 [A Four]	Assigned
Total Facilities	2,250.00 (Two Billion and Two Hundred Fifty Million Only)		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Bhugarbha Cement Limited (BCL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BCL is constrained by weak financial performance of the company during FY22-FY23 (FY refers to the twelve-month period ending mid-July) marked by cash losses owing to muted income level coupled with plunging margins amid low demand and higher input prices exacerbated further by stiff competition. The ratings also factor in highly leveraged capital structure with stressed debt service coverage ratios, stretched liquidity profile owing to elongated operating cycle, raw material price volatility risk and presence in highly competitive industry with cyclical nature.

The ratings, however, derive strength from experienced promoters in the related field, established brand and competitive advantage over the standalone grinding units with accessibility to captive limestone mines.

*Going forward, the ability of the company to profitably scale up of its operations while efficiently managing the working capital cycle resulting in improved solvency and coverage indicators will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Weak financial performance

During FY23, BCL reported decrease in total operating income (TOI) by ~14% y-o-y to Rs. 1,264 Mn (FY22: Rs. 1,479 Mn) amid low demand leading to reduced price realizations. Cement demand was low industry wide during FY22-FY23 owing to slower pace of economic growth coupled with relatively lower infrastructure spending by the government.

This led to lower average realizations due to additional trade discounts to boost sales. Consequently, BCL's PBITDT margin plummeted to 7.7% and 2.61% during FY22 and FY23, respectively, which were around 16% during prior years. The lower profitability margins were also partly on account of higher input prices which the company was not able to adequately pass through to its customers attributed to highly competitive market. Low margins coupled with higher interest burden amid leveraged capital structure has resulted into net losses of Rs. 67 Mn and Rs. 169 Mn during FY22 and FY23 respectively. The company reported cash losses during FY22 and FY23 respectively. Financial strain on the company is likely to persist over the near-term owing to subdued scale of operations and muted profitability amid the ongoing industry headwinds.

##### Stretched liquidity profile owing to elongated operating cycle

The operating cycle of the company was highly elongated at 257 days in FY23 (FY22: 230 days) on account high collection period, resulting in increased reliance on bank borrowings. Average collection period stood high at 298 days in FY23 (FY22:

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

216 days) due to delayed debtor realizations particularly from the retailers. BCL maintains inventory of raw materials for around three months. Payable period also remained stretched at 132 days in FY23 (FY22: 78 days) and Total Outside Liabilities/ Total tangible net worth (TOL/TNW) stood high at 8.82x at the end of FY23 (FY22: 5.11x). Consequently, amid muted cash flow from operations, the company's liquidity position remains highly stretched, resulting in higher reliance for bank borrowings to meet working capital requirements. Lower accruals compared to repayment obligations and highly utilized bank limits could constrain the ability of the company to repay its debt obligations on a timely basis. Furthermore, there has been frequent overdrafts in the working capital borrowings account in recent past.

### **Highly leveraged capital structure with modest debt service coverage indicators**

The capital structure of the company is highly leveraged with overall gearing ratio of 6.51x at the end of FY23 (FY22: 4.26x) on account of higher debt levels partially related to debt funded capex related to expansion of limestone and grinding capacity along with increased working capital borrowings. The company's diluted tangible net worth owing to net losses during FY23 also led to increasing gearing levels in FY23. The interest coverage ratios were below unity during FY22-FY23. Total debt to Gross Cash Accrual Ratio stood at negative during FY22 and FY23 respectively. Rationalization of debt levels will remain critical from credit perspective.

### **Presence in highly competitive and cyclical nature of cement industry**

BCL is operating in a highly competitive industry, dominated by the large cement manufactures with wide brand acceptability. 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 producers of cement are essentially price takers in the market, which directly expose their cash flows and profitability to volatility in the prices of cement as seen in decline in price of cement and clinker during last three years.

### **Raw material price volatility risk**

BCL mainly uses clinker, flyash, slag, gypsum etc. as major raw materials. BCL only has clinker units of 300 MTPD, partially clinker is produced and partially purchased. Most of the purchase are made locally through different trading houses. Raw material cost continues to be the major cost component of BCL as cost of goods sold constituted around 88% of the total sales in FY23. 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 of changes in raw material prices to the customers will remain critical in terms of maintaining adequate profit margins. However, increasing competition has led to a very competitive pricing dynamics in the industry and the ability of the company to protect its market share while maintaining a reasonable profitability margin will be key rating sensitivity.

### **Key Rating Strengths**

#### **Experienced promoters of the company**

The company has a track record of operations of around eight years in cement manufacturing industry. BCL has five members in its board chaired by Mr. Indra Bahadur Baniya. He is director of Baniya Nirman Sewa Private Limited (CARE-NP BB/A4) and has experience of around three decades in construction sector. He is also director of Baniya Suppliers Private Limited (supply of construction materials), Ganga Soap and Chemical Industries Private Limited (manufacturing soaps), Times Motors Private Limited (dealer of Isuzu vehicles). He looks after overall activities including policy & strategy making of BCL. Mr. Nandi Keshar Poudel, managing director, has around a decade of experience in construction sector and also currently as chairman at Dhumrabarahi Housing and Developers. Board of Directors is further supported by an experienced management team.

### Competitive advantage over the standalone grinding units with accessibility to captive limestone mines

BCL currently has mining license, located in Tinpane (Lumbini) with enhanced mining capacity of 3200 MTPD. The capacity of mining scheme was expanded in August, 2023. The limestone mined from the quarry is of high quality with content of Calcium Oxide (CaO) of around 46% and Magnesium Oxide (MgO) below 3% and is sold to other cement factories and trading houses as a sweetener in the western part of the country. Having both clinker (although with low capacity of only 300 MTPD against grinding capacity of 700 MTPD) and grinding units with licensed limestone mines augurs well for the business prospects of the company over the medium term.

### Industry outlook

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. Sustained demand for cement is likely given the need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Hence, demand of cement in the country is expected to grow over the long term. However, with the construction sector in Nepal currently impacted by slower pace of economic growth coupled with relatively lower infrastructure spending by the government, the outlook of cement industry in Nepal remains challenging over the near term. Nevertheless, the government's long-term emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures is likely to benefit cement manufacturers like BCL in the long term.

### About the Company

Bhugarbha Cement Limited (BCL) (erstwhile Bhugarbha Cement Udhog Pvt Ltd) is a public limited company, established in 2016 and converted from Private to Public Limited on June 22, 2023. BCL has its own mining scheme, with 3200 MTPD capacity. The company is engaged in producing cements like Portland Pozzolana Cement (PPC) and Ordinary Portland Cement (OPC) having installed capacity of 700 metric tons per day (MTPD), which was enhanced from 500 MTPD in August, 2023. BCL also has its own clinker capacity of 300 MTPD.

### Financial Performance

(Rs. Million)

For the Period	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	1,421	1,479	1,264
PBILDT Margin (%)	16.71	7.70	2.61
Overall Gearing (times)	2.83	4.26	6.51
Total Outstanding Liabilities/Tangible Net worth (times)	3.45	5.11	8.82
Interest Coverage (times)	1.62	0.89	0.21
Total Debt/Gross Cash Accruals (times)	16.47	-ve	-ve

A: Audited, UA: Unaudited

### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	1,471.63	CARE-NP B-
Short Term Bank Facilities	Fund/Non-Fund Based Limits	778.37	CARE-NP A4
<b>Total</b>		<b>2,250.00</b>	

## Contact Us

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