

**Rating Rationale
Ambe Cement Private Limited**

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	45.00	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	950.00	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	995.00 (Reduced from Rs. 1,000.00 Mn)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BBB-’ assigned to the long-term bank facilities and ‘CARE-NP A3’ assigned to the short-term bank facilities of Ambe Cement Private Limited (ACPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ACPL continue to derive strength from the established track record of operations and moderate financial and operational performance of the company coupled with moderate level of capital structure and debt service coverage indicators during FY19 (audited, refers to 12 months period ended mid-July 2019). The rating also factors in continuous enhancement of the capacity & addition of new machinery, product diversification and own brand, demand of cement products in the country along with strong promoters being part of Ambe Group of Companies and experienced management team in the related field. The ratings are, however, constrained by lack of backward integration and raw material price volatility risk, working capital intensive nature of operations, exposure to volatile interest rates and presence in highly fragmented and competitive nature of cement industry. The ability of the company to manage growth in operations & maintaining the profit margins by passing through changes in raw material prices to the customers along with rationalization of its debt through efficient working capital management would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record of operations, strong Promoters, being part of Ambe Group of Companies and experienced management team in the related field

ACPL has an operational track record of more than fourteen years in the cement manufacturing by grinding of clinker. ACPL is promoted by industrialists and traders who are related with Ambe Group of Companies, which have business interests in manufacturing and trading sectors. Mr. Shobhakar Neupane is the Chairman and Mr. Sajjan Kumar Agrawal is the Managing Director of the Company. Mr. Neupane is the Chairman/ Managing Director of Ambe Group. Mr. Agrawal looks after the day to day operations of the company has an experience of around 25 years of in trading and manufacturing and is also director

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

of Ambe Steels Pvt. Ltd. BoDs are supported by a team of experienced professionals. Promoters of the company have also been infusing funds in the form of unsecured loan to support company operations which stood at Rs. 171 Mn at the end of FY19.

Moderate financial and operational performance of the company during FY19

The company had moderate capacity utilization of 53% during FY19 which reduced from ~59% during FY18. ACPL's total revenue reduced by ~11% during FY19 to Rs. 2,158 Mn due to decline in quantity sold of PPC/PSC cements along with decline in overall average price realization. PBILDT and PBILDT margin of the company declined during FY19, majorly on account of decline in total revenue coupled with increase in fixed cost. As a result of decline in PBILDT, PAT of the company declined to Rs. 45 Mn with reduced PAT margin of 2.06% in FY19 with interest and depreciation cost remaining at the same level during FY19 as compared to FY18.

Moderate capital structure and debt service coverage indicators

Debt equity ratio of the company was low at 0.48x at the end of FY19 which increased from 0.20x at the end of FY18 due to additional term loan of Rs. 45 Mn to fund implementation of granulated blast furnace slag (GGBS) system. Also, loan from promoters increased from Rs. 82 Mn in FY18 to Rs. 171 Mn to fund operations of the company. This was partially offset by increase in net worth upon accretion of profit. Total gearing ratio of the company was moderate at 2.00x at the end of FY19 which increased marginally from 1.96x at the end of FY18. Interest coverage ratio of the company was moderate at 2.22x during FY19 with total debt/ GCA at 9.79x during FY19.

Continuous enhancement of the capacity & addition of new machinery

Company has been continuously incurring capex in increasing the installed capacity and is currently operating three clinker grinding plants with total clinker grinding capacity of 1000 metric tons per day in the same premises. ACPL commenced commercial operation from June, 2005 by setting up clinker grinding unit of 300 MTPD capacity. Immediately during 2006, the company installed new plant of 300 MTPD and then in FY11 added another grinding unit of 400 MTPD which increased the total installed capacity to 1000 MTPD. ACPL currently has installed ground granulated blast furnace slag (GGBS) system for production of PSC cement and trial run of the plant has started from mid-January, 2020.

Product diversification and own brand

ACPL is manufacturing PPC Cement under two brands, OPC cement under two brands and also manufactures PSC Cement under six brands, which has great usage on all types of residential, commercial & industrial projects, dams & other mass concrete works etc. Currently ACPL focus its sales in the territory of nine zones (out of 14 zones on Nepal) covering 38 districts (out of 77) of Nepal.

Demand of cement products in the country

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of

construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Further, followed by devastating earthquake of April 2015, Government commitment towards infrastructure and rebuilding the housing sector has increased demand of cement products in Nepal. As a result of increased development works, demand for cement is expected to grow by 10% annually.

Key Rating Weaknesses

Lack of backward integration and raw material price volatility risk

ACPL is engaged in producing cement and does not possess its own clinker unit. Hence, it has to procure clinker from other cement manufacturers. The company also imports slag from India. ACPL mainly use clinker, slag, fly ash, gypsum etc. as the major raw materials. Raw material cost continues to be the major cost component of ACPL constituting around 80% of the net sales in FY19. 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 finished products will be the key rating sensitivities.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. ACPL is involved in manufacturing cement by procuring raw materials both locally and by importing. Raw materials such as slag is imported from India for which the company has to make advance payments. Also, other raw materials such as clinker, gypsum are procured locally for which company receives credit period for around 20 days. ACPL has to keep the inventory for smooth operations and extend credit to their dealers, which lead to reliance on working capital limits. ACPL's average debtors' turnover days was 125 days and the average inventory turnover was 69 days during FY19. Total operating cycle of the company was 175 days in FY19 which increased from 120 days in FY18. This leads high working capital requirement to fund the operations. The average utilisation of fund-based working capital limit against drawing power was around 82.26% during last 12 months period ended mid-January, 2020.

Exposure to volatile interest rates

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

Presence in highly fragmented and competitive nature of cement industry

ACPL is operating in a highly competitive market, dominated by the large cement manufacturers 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 demand in cement industry is considered cyclical as it depends upon the capital expenditure plan of

major players in the end-user industry. Further, with increase in the capacities of the existing plants and new capacities coming into operation, competition has intensified which has resulted into substantial decline in profitability margins of the industry players in the current year. 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. Further, recent outbreak of Corona Virus has resulted nation-wide lockdown in India and Nepal which is likely to impact production and sales of whole industry including ACPL.

About the Company

Ambe Cement Private Limited (ACPL) is a private limited company, established in 2004, promoted by the individuals involved in manufacturing industry and trading business, for setting up clinker grinding plant at Parsa District of Nepal. The company is engaged in manufacturing and selling of cement with grinding capacity of 1000 metric tons per day (MTPD). ACPL manufactures Portland Pozzolana Cement (PPC), Ordinary Portland Cement (OPC) and Portland Slag Cement (PSC) cement under ten different brands.

Brief financial performance of ACPL during last 3 years is given below:

(Rs. Million)			
Particulars	FY17 (A)	FY18 (A)	FY19 (A)
Income from Operations	2,561	2,435	2,158
PBILDT	230	254	205
PAT	86	83	45
Overall Gearing (times)	2.26	1.96	2.00
Interest coverage (times)	4.21	2.80	2.22

Analyst Contact Mr. Utsav Baral utsav.baral@careratingsnepal.com Tel No.: +977-01-4445473	Group Head Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4445474	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4445472/3/4
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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	45.00	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Limit	910.00	CARE-NP A3
Short Term Bank Facilities	Non-Funded Limit	40.00	CARE-NP A3
Total		995.00	