

Balaji Cement Industries Private Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating ^[1]	Rating Action
Long-term Bank Facilities	1,157.54	CARE-NP BB- [Double B Minus]	Reaffirmed
Short-term Bank Facilities	940.30	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	2,097.84 [Rs. Two Billion Ninety-Seven Million and Eighty-Four Thousand Only]		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities and 'CARE-NP A4' assigned 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 continue to be constrained by its short track record of operations, leveraged capital structure, weak debt service coverage indicators and working capital intensive nature of operations. The ratings also factor in lack of backward integration and raw material price volatility risk for company, exposure to volatile interest rates and its presence in highly competitive nature of industry.

The ratings, however, derive strength from experienced promoters in the manufacturing industries, favourable demand outlook of cement in the country, product diversification with own brands and locational advantage of the manufacturing facilities.

The ability of the company to profitable scale up its operations while managing the raw material prices fluctuations along with rationalization of its debt levels would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Constraints

Short track record of operations

BCPL started with its commercial production from June 2019 onwards and has a relatively short track record of operations as compared with other established players. FY20 (audited, refers to 12 months period ended mid-July, 2020) was the first full year of operations for the company. The company achieved turnover of Rs. 1,060 Mn in FY20. PBILDT margin of the company stood comparatively low than industry at 11.79% on account of higher purchase cost of clinker and products sold at lower margins to penetrate the market. Furthermore, to achieve the envisaged scale of business in the light of competitive nature of industry remains crucial for BCPL. During H1FY21 (unaudited, (refers to 6 months' period ended mid-Jan 2021), BCPL has booked total revenue of Rs. 432 Mn.

Leveraged capital structure and weak debt service coverage indicators

The company has leveraged capital structure on account of high dependence on external debt taken to support the working capital requirements and term loan taken for setting up manufacturing facilities. Furthermore, total debt of the company increased from Rs. 1,173 Mn at the end of FY19 to Rs. 1,895 Mn at the end of FY20. Debt-equity ratio of the company was high at 1.67x at the end of FY20. The overall gearing also stood at 2.78x as on mid-July, 2020 and shown deterioration from 1.76x as on mid-July, 2019 on account of increase in total debt levels. Also, high finance expenses have restricted profitability and has led to low GCA levels. Therefore, the interest coverage ratio of the

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

company remained modest and stood at 1.63x in FY20. Furthermore, the total debt/ Gross Cash Accruals remained high at around 40x in FY20.

Working capital intensive nature of operations

The operations of the company are highly working capital intensive as the company requires to stock up the requisite inventory owing to smooth running of manufacturing operations and delivery schedules. Furthermore, high credit period extended to its customers also keeps the working capital utilization relatively higher. In addition to this, raw materials for BCPL such as slag, gypsum and flyash imported from India are purchased mainly against advances or cash payments. BCPL generally allows around three months credit period to its dealers on account of highly competitive industry and keeps inventory for around a month. The high working capital requirements were met largely through bank borrowings which resulted in a high average utilization of more than 95% of its working capital limits for the last 12 months period ended mid-April 2021.

Lack of backward integration and raw material price volatility risk

BCPL is engaged in producing cement and does not possess its own clinker unit. Hence, it has to procure clinker from other clinker manufacturing plants located in Nepal. Raw material cost continues to be the major cost component of BCPL against the net sales. 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 competitive nature of industry

BCPL is operating in a highly competitive market, dominated by the large cement manufacturers with wide brand acceptability. Given the fact that there are large number of players in the industry, the new 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. 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.

Key Rating Strengths

Experienced promoters in the manufacturing industries

BCPL is promoted by industrialists and traders, who have diversified businesses interests and are involved in manufacturing of cement, agro processing, textiles, and trading of steel, building construction material, etc. The company is managed under the overall guidance of its the Board of Directors (BoD) who possess 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 Agrawal has been involved in family business for 22 years as Managing Director of Shiv Shakti Group, engaged in manufacturing of plastic fabric, packaging, laundry Soap and agriculture-based products (Rice, edible oils). Mr. Gaurav has more than 13 years of experience in textiles industry, import of industrial raw materials & readymade garments.

Product diversification and own brand

BCPL is manufacturing PPC and OPC Cement under four brands and also manufactures PSC Cement under single brand, which has great usage on all types of residential, commercial & industrial projects, dams & other mass concrete works,

water retaining structures, concrete roads & flyovers etc. Currently BCPL is majorly focusing its sales in Kathmandu valley and western part of Nepal.

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. 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.

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. In the recent budget of Nepal for FY22, government has majorly focused towards development of health sectors, tourism sectors and other infrastructure development. Cement being fundamental requirement for any construction activity is therefore going to be in regular demand. Also, the government’s high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures and estimated GDP growth of 6.50% as included in the budget for FY21-22 is likely to benefit the cement manufacturers like BCPL.

About the Company

BCPL is a private limited company, established in May 2016. the company have set up a clinker grinding unit with cement manufacturing capacity of 1400 metric tons per day and commenced operations from June 15, 2019. BCPL is engaged in manufacturing of Portland Pozzolana Cement (PPC), Portland Slag Cement (PSC) and Ordinary Portland Cement (OPC) under various brands.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2019	2020
	(12m, A)	(12m, A)
Total Operating Income	6	1,060
PBILDT Margin (%)	-ve	11.79
Overall Gearing Ratio (times)	1.76	2.78
Interest Coverage (times)	NM	1.63
Current Ratio (times)	2.87	0.94
Total Debt/Gross Cash Accruals (times)	-ve	39.40

A: Audited

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	1,157.54	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limits	740.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	200.30	CARE-NP A4
Total		2,097.84	

Contact Us

Analyst

Mr. Utsav Baral

Contact No.: +977-01-4012628

Email: utsav.baral@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai

Contact No.: +977-01-4012629

Email: shalini.sanghai@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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