Maruti Cements Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Long-term Bank Facilities	4,630.82	CARE-NP A- [Single A Minus]	Reaffirmed
Short-term Bank Facilities	1,070.47	CARE-NP A2+ [A Two Plus]	Reaffirmed
Total Facilities	**5,701.29 [Rs. Five Billion Seven Hundred One Million Two Hundred and Ninety Thousand Only]**		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP A-' assigned to the long-term bank facilities and 'CARE-NP A2+' assigned to the short-term bank facilities of Maruti Cements Limited (MCL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MCL continue to derive strength from established track record of operations and established brand presence of the company along with comfortable gearing levels and debt service coverage indicators. The ratings also factor in competitive advantage over standalone grinding units, locational advantage of the manufacturing facilities, accessibility to limestone mines and positive industry prospects.

The ratings are however, constrained by implementation and stabilization risk associated with large-size ongoing capex, foreign exchange fluctuation risk and raw material price volatility risk. The ratings also factor in elongated operating cycle of the company, although low reliance on bank finance, exposure to volatile interest rates and presence in highly competitive market and cyclical nature of cement industry. The ratings also took cognizance of subdued financial performance in FY20 (Audited, refers to 12 months period ended mid-July 2020) due to Covid-19 impact.

Timely completion of the proposed project within the cost estimates and satisfactory operations and capacity utilizations thereafter are the key rating sensitivities. Further, vulnerability with regard to prices and demand dependent on factors like construction activities, economy growth and impact of Covid-19 remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations and experienced promoters in manufacturing industries including cement

MCL has an operational track record of more than 12 years in cement manufacturing under the new management. MCL is managed by industrialists and traders of Nepal, belonging to the Rathi group and Goyal group of companies, who are involved in diversified business activities. The company is managed under the overall guidance of the company's Board of Directors (BoD) who possesses wide experience in the related field. Mr. Nand Kishore Rathi is the Chairman and Mr. Sunil Khemka is the Managing Director of the Company.

Competitive advantage over the standalone grinding units

MCL currently has mining license of one mine, located in Jhanki Khola (Katari) with estimated limestone deposit of ~ 140 Million ton which is sufficient to run 3300 MTPD clinker unit (enhanced capacity) for 60 years. Now, Nepal is manufacturing its own clinker and dependence upon the import of the clinker has reduced substantially over the period. Clinker manufacturing units have cost competitive advantage over the standalone grinding units as the average manufacturing cost per MT of an integrated cement plant is less as compared to a standalone grinding unit.

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

Locational advantage of the project site and accessibility to Limestone mines

The plant site is well connected to East-West Highway and with major cities and town nearby. Further, the mines are located close to the clinker and grinding unit (~ 50 Km) which reduces logistics cost. Also, the plant is located in the eastern part of the country where presence of other clinker based cement manufacturing companies is limited.

Established brand presence and strong market position with product diversification plans

MCL sells its product all over Nepal with primary focus towards eastern part of Nepal, with main market being Narayanghat to Kakarbhitta and to north of Narayanghat and sells its product in the market through its ~200 dealers all over Nepal. The company's established brand presence and strong market position has supported the company to sustain competition induced volatility in prices over the years. Further, MCL is currently producing only OPC cement under the brand name "Maruti". The company plans to produce PPC after the expansion of the facilities to diversify its product range.

Satisfactory financial risk profile

MCL's revenue declined by ~25% in FY20 to Rs. 5,631 Mn on account of lockdown imposed during the year due to Covid-19, which has impacted the operations of the company. Due to decline in revenue, PBILDT of the company declined to Rs. 1,238 Mn with margin of 21.98% in FY20. Despite decline in revenue, the company was able to maintain PBILDT margins at similar levels of FY19 on account of rationalization of expenses like sales promotion, repairs & maintenance and also administrative expenses. Profitability of the company was impacted in FY20 due to lower PBILDT generated; however, PAT margin was remained at stable levels. Furthermore, MCL reported sales revenue of Rs. 5,253 Mn during 9MFY21 (provisional) with PBILDT margin of to 23.31%. PBILDT margin improved mainly on account of increase in average price realization.

The working capital utilization of the company is at moderate level on account of usage of internal accruals for funding most of the working capital as well as operational requirements. Debt-equity ratio of the company continued to remain at comfortable levels and stood at 0.25x at the end of FY20 on the back of repayment of term loans and increase in net worth due to accretion of the profit to the net-worth. Overall gearing ratio of the company also stood comfortable at 0.36x at the end of FY20 (FY19: 0.38x). The debt service coverage indicators also stood comfortable at interest coverage ratio of 8.83x and Total debt/ GCA at 1.74x for FY20.

Demand of cement products in the country expected to grow in the long term

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, 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 MCL.

Key Rating Weaknesses

Project implementation and stabilization risk associated with large-size planned capex for the enhanced capacity

The envisaged cost of ongoing capex related to increase in capacity of clinker and grinding plant (clinker capacity from 1500 MTPD to 3300 MTPD and grinding capacity from 2000 MTPD to 4000 MTPD) is Rs. 5,622 Mn. The project cost will be funded by debt of Rs. 3,935 Million and remaining will be funded by internal accruals of the company. The debt equity ratio for the expansion project is going to be funded in the ratio of 70:30.

Though the capital expansion will increase the company's installed capacity, the company however remains susceptible to risk related with implementation and stabilisation. Any delays in the implementation may impact the company's financial risk profile adversely and is also crucial from credit prospective. The debt funded project is expected to increase in gearing levels in the medium term. However, aforementioned risks are partially offset by debt funding being tied and majority of civil construction works being completed. Depending on the current progress of the project the estimated COD for the brownfield expansion is March 2022. The successful execution of the expansion project within cost and time estimates and early stabilization thereafter will be crucial for the company for generation of incremental revenue and key monitorable from analytical perspective.

Foreign exchange fluctuation risk and raw material price volatility risk

MCL currently uses coal, limestone, bauxite, gypsum, clay and iron ore as major raw materials. Coal constitutes around 60% of raw materials consumption during clinker production and the coal requirements are met through import from South Africa and other countries. Invoicing of the imported coal is done in USD which exposes MCL to foreign exchange fluctuation risk. MCL has not taken any hedging mechanism to minimize the risk associated with fluctuation in foreign currency.

Raw material cost continues to be the major cost component of MCL as direct material cost constitutes around 54% of total cost of goods sold in FY20. 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 and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

Elongated operating cycle, although low reliance on bank finance

The operations of the company are working capital intensive in nature as it is involved in manufacturing of cement by procuring raw materials both domestically and imports. The company has to make advance payments for the raw materials, maintain inventory for smooth operations and extend credit to dealers, which leads to reliance on working capital limits. MCL generally allows two months credit period to its dealers and maintains inventory for around 4 months. The company also needs to maintain huge stock of limestone. This led to high operating cycle of 215 days in FY20. However, MCL has sizeable unutilised working capital limits in the last 11 months ended in mid-June 2021, which provides financial flexibility given the increasing working capital intensity.

Presence in highly competitive market and cyclical nature of cement industry

MCL 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 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 over the years.

About the Company

Maruti Cement Limited (MCL) was incorporated on October 31, 1994 and the current management took over the company in 2005. MCL is managed by industrialists and traders of Nepal, belonging to the Rathi group and Goyal group of companies and all the shares of the company are held by the promoters. The company is presently engaged in manufacturing and selling cement with clinker capacity of 1500 MTPD and grinding capacity of 2000 MTPD located in Mirchaiya, Siraha District of Nepal.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Total Operating Income	7,324	7,504	5,631
PBILDT Margin (%)	26.74	22.49	21.98
Overall Gearing Ratio (times)	0.45	0.38	0.36
Interest Coverage (times)	12.03	9.99	8.83
Current Ratio (times)	2.44	1.34	2.06
Total Debt/Gross Cash Accruals (times)	0.96	1.21	1.74

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	4,630.82	CARE-NP A-
Short Term Bank Facilities	Fund Based Limits	678.47	CARE-NP A2+
Short Term Bank Facilities	Non-Fund Based Limits	392.00	CARE-NP A2+
Total		**5,701.29**	

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About CARE Ratings Nepal Limited:

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