

## Samrat Cement Company Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating <sup>[1]</sup>	Rating Action
Long Term Bank Facilities – Term Loan	8,527.57	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	1,145.17	CARE-A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>9,672.74</b> [ <b>Nine Billion Six Hundred Seventy-Two Million and Seven Hundred Forty Thousand Only</b> ]		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of ‘CARE-NP BB’ to the long-term bank facilities and ‘CARE-NP A4’ to the short-term bank facilities of Samrat Cement Company Private Limited (SCPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SCPL continue to be constrained by leveraged capital structure, residual project implementation and stabilization risk associated with ongoing expansion project coupled with low-capacity utilization of the existing cement plant, raw material price and foreign exchange fluctuation risk. The ratings also factor in subdued operating performance of the company during FY20 (FY refers to 12 months ended on July 15, 2020), and competitive nature of cement industry.

The ratings, however, derive strength from experienced promoters in related field, established brand presence, moderate operating cycle, locational advantage of manufacturing facilities, and favourable demand outlook of cement in the country.

*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. Furthermore, completion of the ongoing expansion project with-in the envisaged time and cost will be key rating sensitivity.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weakness

##### ***Below Average Financial risk profile***

Due to lockdown imposed by Government of Nepal for around 3 months in FY20 (FY refers to 12 months’ period ended mid-July), the performance of the company had impacted. SCPL’s reported total operating income of Rs. 2,109 Mn during FY20 which declined by 33.32% as compared to sales of Rs. 3,166 Mn in FY19. The decrease in total revenue in FY20 was due to the decrease in quantity sold coupled with decline in average price realization.

PBILDT and PAT margins stood at 11.31% and 0.93% respectively during FY20 and decreased from 13.05% and 3.44% respectively in FY19. PBIDLT and PAT margin declined in FY20 due to decline in capacity utilization which resulted in increase in cost due to proportion of fixed cost which deprived it of its scale benefits.

The total debt of the company increased to Rs. 8,145.34 Mn at the end of FY20 from Rs. 2,479.96 Mn over previous balance sheet date. This substantial increase in debt levels is on account increase in term debt taken for ongoing

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

expansion project. As on mid-July 2020, the capital structure of the company stood leveraged marked by debt equity ratio and overall gearing of 3.17x and 3.61x respectively (PY:0.97x and 1.32x respectively). The deterioration was on account of the same reason stated above.

Due to the decline in profitability and increase in debt levels, the debt service coverage indicators weakened and the interest coverage ratio was 2.12x (FY19: 2.52x).

#### **Current Year Performance**

Company reported the increase in total revenue of Rs. 2,326.94 Mn out of which Rs. 833.25 Mn was from OPC cement and Rs. 1,493.69 Mn was from PPC cement during 9MFY21 ending on April 13, 2021 with the capacity utilization of 52%.

#### ***Residual Project implementation and stabilization risk associated with its very large-size planned capex***

The company is undertaking brownfield capex which will increase the manufacturing capacity by two times for grinding unit and also the company has recently established clinker unit of 4000 metric ton capacity. The envisaged total cost of the said expansion project is Rs. 10,132.62 Mn and is proposed to be funded in the debt of Rs. 8,194 Mn and balance through promoter's contribution. The debt for the same has been tied up.

Till July 12, 2021, the company has incurred Rs. 11,247 Mn specifically on clinker unit (Rs.10,842Mn). The commercial production from the clinker unit has been started in January 2021 and the grinding capacity is expected to commence commercial production in September 2021. Post project implementation risk in the form of stabilization of the manufacturing facilities to achieve the envisaged scale of business and saleability risk associated with the products in the light of competitive nature of industry remains crucial for the company, specifically when the existing capacity utilization is modest. Furthermore, the capital structure of the company is expected to remain leveraged characterized by high overall gearing of over four times due to debt funded capex term loans.

#### ***Exposure to volatile interest rates***

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions (BFIs) remains volatile to change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 2-3 years. Therefore, funding from BFIs is subject to volatile interest rate.

#### **Raw material price and foreign exchange fluctuation risk**

SCPL mainly imports Gypsum, flyash and coal from India and South Africa. As coal is an actively traded commodity, the prices tend to be volatile. Furthermore, the company's manufacturing processes are dependent on the imports. Therefore, the company's profitability margins are exposed to volatility in foreign exchange which the company does not hedge.

Raw material constituted more than (75%) of the total cost of production for the last 2 years (FY19 & FY20). The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of raw material. 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.

#### ***Competitive nature of cement industry***

SCPL 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 Strength**

#### ***Experienced promoters in the related field***

SCPL is promoted by industrialists and traders of Nepal, who are involved in cement, bricks & coal industry and trading of construction & electronic items. 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. Anil Kumar Rugata is the Chairman and Mr. Bashudev Pandeya is the Managing Director of the Company. Mr. Rungta, has more than 25 years of experience in different sector like cement, iron, wire etc. Mr Pandeya, Managing Director of SCPL has more than two decades of experience in the field of coal mining, bricks industry, rice mills and trading of grain items and having 4 years of experience as Executive Director of Sonapur Cement Pvt. Ltd. Promoters of the SCPL are industrialists and businesspersons having various business interests.

#### ***Established Brand Presence***

SCPL is manufacturing PPC and OPC cement under seven 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 SCPL is majorly focusing its sales in western, mid-western and far western part of Nepal.

#### ***Locational advantage of the project site and license of Limestone mines***

The plant is located in the mid-western part of Nepal nearby the big cities Ghorahi, Tulsipur, Kohalpur, Dhangadi, Nepalgunj, Butwal, Bhairahawa, etc. which are major local market for the SCPL's product. The limestone mine is located at a distance of 50 km from the plant site which eases the extraction of limestone from the mines. Further, there are only three clinker and grinding plant operating around SCPL's site. Furthermore, there are also numerous small grinding plants nearby SCPL's site to which SCPL is proposing to sell excess manufactured clinker.

#### ***Demand for 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 SCPL.

## About the Company

Samrat Cement Company Private Limited (SCPL) is a private limited company, established in 2013, for setting up clinker and cement grinding plant at Dang District of Nepal. The company is presently engaged in manufacturing and selling of cement with grinding capacity of 1,800 MTPD. The company is in process of expansion of its grinding capacity to 3,600 MTPD and expected to come in operation on September 30, 2021. Further, the company has also backward integrated its plant by setting a clinker manufacturing unit of 4,000 MTPD capacity which came into operation on January 14, 2021.

## Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	8,527.57	CARE-NP BB
Short Term Bank Facilities	Working Capital	1,145.17	CARE-NP A4
<b>Total</b>		<b>9,672.74</b>	

## Financial Performance

Particulars	FY17	FY18	FY19	(Rs. In Mn)
				FY20
	<b>Audited</b>			
Income from Operations	125	2,780	3,168	2,113
PBILD Margin (%)	(13.95)	9.54	13.05	11.31
Overall Gearing (times)	2.57	1.55	1.32	3.61
Interest coverage (times)	(1.37)	2.08	2.52	2.12
Current Ratio (times)	0.87	1.61	1.42	1.17
Total Debt/Gross Cash Accruals (times)	(25.69)	8.98	10.71	66.54

## Contact Us

### Analyst

Ms. Elisha Lamichhane  
Contact No.: 977-01-4012628  
Email: elisha.lamichhane@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

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