Ambe Cement Private Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings[1]	Rating Action
Short Term Bank Facilities- Fund Based Facilities	910.00	CARE-NP A3 [A Three]	Reaffirmed
Short Term Bank Facilities- Non-Fund Based Limits	40.00	CARE-NP A3 [A Three]	Reaffirmed
Long Term Bank Facilities	– (Reduced from 39.00)	-	Withdrawn
Total Facilities	**950.00 (Reduced from 989.00)**		

Details of Facilities/Instruments in Annexure 1

CARE Ratings Nepal Limited (CRNL) has withdrawn the rating assigned to the long term bank facilities of Ambe Cement Private Limited as the company paid the loan in full and there is no amount outstanding under the facilities, and reaffirmed the rating of 'CARE-NP A3' assigned to the short term bank facilities of the company.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of ACPL continue to derive strength from moderate financial and operational performance of the company coupled with moderate level of capital structure and debt service coverage indicators during FY21 (audited, refers to 12 months period ended mid-July 2021). The rating also factors in established track record of operations along with strong promoters being part of Ambe Group of Companies and experienced management team in the related field, product diversification and own brand, and demand of cement products in the country. The rating is, 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.

Going forward, the ability of the company to manage growth in operations while improving the profitability margins 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

Moderate financial and operational performance of the company during FY21

The company had moderate capacity utilization of around 58% during FY21 which increased from around 48% during FY20. Manufacturing operations of ACPL in FY20 had been impacted by lockdown imposed by Government of Nepal due to Covid-19. However, with increased construction activities post the first wave of the pandemic, albeit still at lower than the pre-covid levels, ACPL's total revenue during FY21 increased by ~14% to Rs. 2,038 Mn compared to Rs. 1,782 Mn in FY20. However, despite the increase in total revenue, PBILDT of the company reduced by ~28% in FY21 to Rs. 139 Mn, along with decline in PBILDT margin of 6.79% in FY21 compared to 10.85% in FY20. Lower price realization amid increased competition coupled with higher input prices, particularly that of dry slag used in PSC cement, which the company was not able to fully pass on to the customers, led to the decline in the PBILDT margin during FY21. Consequently, PAT of the company also declined by around 48% in FY21 to Rs. 21 Mn in FY21 from Rs. 40 Mn in FY20.

[1]Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Moderate capital structure and debt service coverage indicators

Debt equity ratio of the company remained comfortable at 0.09x at the end of FY21 which improved from 0.30x at the end of FY20 mainly due to repayment of long term loan, coupled with repayment of other borrowings. Overall gearing ratio of the company improved to 1.45x at the end of FY21 from 1.98x at the end of FY20, aided also by the decline in working capital loans amid rationalization of the working capital cycle. Interest coverage ratio of the company was moderate at 2.33x during FY21 compared to 2.24x during FY20. Total debt/ GCA for FY21 improved marginally to 10.43x compared to 10.56x during FY20, with impact of lower debt levels offset to a large extent by reduced GCA.

Established track record of operations and 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 fifteen years in the cement manufacturing by grinding of clinker. The company is promoted by industrialists and traders who are related with Ambe Group of Companies, which has business interests in manufacturing and trading sectors. Mr. Shobhakar Neupane, Chairman, is also the Chairman/ Managing Director of Ambe Group. Mr. Sajjan Kumar Agrawal, Managing Director, has 25 years of experience in trading and manufacturing sector. He is also director of Ambe Steels Pvt. Ltd. BoDs are supported by a team of experienced professionals.

Product diversification and own brand

ACPL is manufacturing PPC cement under two brands, OPC cement under two brands and PSC Cement under six brands, all of which have usage on different types of residential, commercial & industrial projects as well as dams & other mass concrete works. Currently, ACPL focuses its sales mainly in the Eastern territory of Nepal covering 4 provinces (out of 7) and 38 districts (out of 77).

Demand of cement products in the country

Demand of cement products in the country is expected to grow over the medium-term. 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. Furthermore, the government's high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures etc. is likely to benefit the cement manufacturers like ACPL.

Key Rating Weaknesses

Lack of backward integration and raw material price volatility risk

ACPL is engaged in producing cement through its grinding unit and does not possess its own clinker unit. Hence, it needs to procure clinker from other cement manufacturers, and import slag and other raw materials from India. ACPL mainly uses 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 FY21. Hence, ability of the company to pass on any adverse movement in raw material price to the customers in a timely manner and maintain profitability margins is critical from the credit prospective.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature as ACPL manufactures cement by procuring raw materials both locally and by importing. Raw materials such as slag is imported from India for which advance payments has to be made, whereas clinker and gypsum is procured locally for which company receives credit period normally upto 30 days. ACPL also needs to keep inventory for smooth operations and extend credit to its dealers, which leads to reliance on working capital loan. Total operating cycle of the company was 183 days in FY21, which decreased from 239 days in FY20 mainly due to decrease in average collection period and inventory holding period. Despite some rationalization in working capital cycle during FY21, the overall operating cycle of the company remains on the higher side, leading to sustained dependence on bank borrowings. The average utilization of fund-based working capital limit against drawing power was around 78.29% during last 12 months period ended mid-January, 2022.

Presence in highly competitive nature of cement industry

ACPL is operating in a highly competitive market, dominated by the large cement manufactures with wide brand acceptability. The demand of cement 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 in Nepal, competition has intensified that has resulted into substantial decline in profitability margins of the industry players during the last 2 year.

About the Company

ACPL is a private limited company, established in 2004, promoted by 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 1,000 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 the past 2 years are given below:

(Rs. Million)

For the year ended Mid-July	FY20 (Audited)	FY21 (Audited)
Income from Operations	1,784	2,042
PBILDT Margin (%)	10.85	6.79
Overall Gearing (times)	1.98	1.45
Interest Coverage (times)	2.24	2.33
Current Ratio (times)	1.26	1.28
Total Debt/Gross Cash Accruals (times)	10.56	10.43

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Short Term Bank Facilities	Fund Based Facility	910.00	CARE-NP A3 [A Three]
Short Term Bank Facilities	Non-Fund Based Facility	40.00	CARE-NP A3 [A Three]
Total		**950.00**	

Contact us

Analyst
Mr. Prashiddha Sharma Gaire
Contact No.: +977 9802335865
Email: prashiddhas@careratingsnepal.com

Senior Analyst
Mr. Santosh Pudasaini
Contact No.: +977 9802312855
Email: santosh.pudasaini@careratingsnepal.com

Relationship Contact
Mr. Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

About CARE Ratings:

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The Unified Directives, 2078 issued by NRB has changed the validity of ratings to two years, however, in view of the SEBON regulations stating regular monitoring along with mandate agreement with the client which mentions annual detailed review of the rating assigned, CRNL continues to mention validity of the ratings as one year.