Agni Cement Industries Private Limited

Rating

Facilities/ Instrument	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	115.66 (decreased from Rs. 141.62 Mn)	**CARE-NP BB [Double B]**	Reaffirmed
Short Term Bank Facilities	690.00 (decreased from Rs. 709.62)	**CARE-NP A4 [A Four]**	Reaffirmed
Total Facilities	**805.66**		

** Details of 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 Agni Cement Industries Private Limited (APL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of APL continue to be constrained by APL's below average financial risk profile marked by decline in profitability during FY21 (Audited, refers to the twelve-month period ended mid-July 2021), leveraged capital structure with modest debt service coverage indicators, lack of backward integration and raw material price volatility risk. The rating also factors in working capital intensive nature of operations and presence in highly competitive industry with cyclical nature.

The rating, however, derives strength from experienced promoters in related field, established brand and growing marketing network, and favorable mid-term demand outlook of the cement industry.

Going forward, the ability of the company to profitably scale up of its operations while efficiently managing the working capital cycle will be the key rating sensitivities. Any un-envisaged debt funded capital expenditure leading to deterioration in its capital structure and debt coverage indicators from current levels will also be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile marked by decline in profitability in FY21

Although total revenue increased by 3% year on year to Rs. 1,352 Mn during FY21, APL's profitability remained sluggish impacted mainly by lower price realizations in an increasingly competitive industry. Total quantity sold increased by 17% to 1,45,499 metric tons (MT) during FY21 from 1,24,417 MT. However, average price realization had declined to Rs. 436 and Rs. 533 per bag for Portland Pozzolana cement (PPC) and Ordinary Portland cement (OPC) respectively during FY21 from Rs. 530 and Rs. 608 per bag, respectively for PPC and OPC during FY20.

PBILDT margin also declined to 6.82% in FY21 compared to 9.81% in FY20. Furthermore, increased input prices along with higher administrative expenses also added to the decline in profitability during FY21. Consequently, the company's PAT declined significantly in FY21 to Rs. 4 Mn (FY20: Rs. 15 Mn). The company has booked revenues of Rs. 1,189 Mn during 9MFY22 (Unaudited, refer to nine-month period ended mid-April 2022). Although scope for increasing sales over the mid-term augurs well for the company's growth prospects, sustained downward pressure on profitability is likely given the competitive industry landscape.

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

Leveraged capital structure with modest debt service coverage indicators

The company's capital structure remains leveraged with gearing ratio of 2.31x at the end of FY21, increasing slightly from 2.28x at the end of FY20 mainly on account of higher working capital loan at the end of FY21. Interest coverage ratio of the company remained modest at 1.50x during FY21 though improved from 1.44x during FY20, with impact of lower PBILTD generation being majorly offset by lower interest expense. The total debt to Gross Cash Accrual Ratio remains substantially high at 34.17x (FY20: 24.10x) as gross cash accruals had declined to Rs. 28 Mn in FY21 as compared to Rs. 39 Mn in FY20 amid lower profitability.

Lack of backward integration and raw material price volatility risk

APL 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. APL mainly uses clinker, slag, flyash, gypsum, etc. as the major raw materials. Raw material cost continues to be the major cost component of APL constituting around 87% 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 operation

Operations of the company are highly working capital intensive marked by an average operating cycle of around 198 days in FY21. Amid increased competition, the average collection period is quite high in the cement industry. APL's average collection period remained particularly high at around 253 days during FY21. Furthermore, the company is required to maintain adequate inventory of raw materials to avoid any stock out issues. Although payable period also remained on the higher side, 91 days in FY21, the company's net operating cycle remains highly elongated, resulting in increased reliance on bank borrowings. Average utilization of fund based working capital limits were high at ~95% of APL's sanctioned limits for nine-month period ended mid-April, 2022.

Presence in a competitive industry with cyclical nature

APL is operating in a highly competitive market, dominated by the large cement manufacturers with wide brand acceptability. Given the increased competition, 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. Furthermore, 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 recent years.

Key Rating Strengths

Experienced promoters in the related field

APL has an operational track record of more than eleven years in cement manufacturing by grinding of clinker. APL is promoted by individuals who have experience in cement industry, medical and education sectors. The company is managed under the overall guidance of its Board of Directors, with members having wide experience in the related field. Mr. Krishna Prasad Pokharel, Chairperson, has been involved in different businesses for 25 years and is also a director in Shubhashree Agni Cement Udhyog Pvt. Ltd. (CARE-NP BB+/A4+). Dr. Tara Prasad Pokharel, Managing Director, is also the Managing Director of SSPL. The BOD is supported by management team of qualified professionals with wide experience in cement industry.

Moderate brand presence marketing network

APL has been operational in the cement market for more than 10 years. During this course, it has established four brands such as Agni, Orient and Tridev as PPC brand and Alfa as OPC brand. APL has focused its sales in the territory of nine zones (out of 14 zones of Nepal) covering 31 districts (out of 77) of Nepal.

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. Also, in the recent budget of Nepal for FY22, government has majorly focused towards development of health sectors, economic recovery from covid-19 pandemic and infrastructure development. Further, as per custom authority of Nepal, during 8MFY22 (refers to the eight-month period ended mid-March 2022), Nepal imported cement worth Rs. 241 Mn and cement clinker of 47,826 Metric ton, which indicate that domestic demand of cement is yet to be fully met through internal production. Furthermore, the government's emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures and estimated recovery in economy over the medium term is likely to benefit the cement manufacturers like APL.

About the Company

Agni Cement Industries Private Limited (APL) is a private company and was established in 2007. APL is engaged in producing cements like Portland Pozzolana cement (PPC) and Ordinary Portland cement (OPC) having installed capacity of 900 metric tons per day (MTPD). APL had started its cement grinding plant in December 2009 with 600 MTPD which was later enhanced to 900 MTPD in May 2018.

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

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	1,972	1,305	1,352
PBILDT Margin(%)	9.48	9.81	6.82
Overall Gearing (times)	2.23	2.27	2.31
Interest coverage (times)	2.15	1.44	1.50
Current Ratio(times)	1.11	1.16	1.17
Total Debt/Gross Cash Accruals(times)	12.52	24.10	34.17

A: Audited

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	115.66	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	640.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limits	50.00	CARE-NP A4
Total		**805.66**	

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