# Ambe Cement Private Limited

**Rating**

| Facility/Instrument* | Amount (Rs. in Million) | Ratings[1] | Rating Action |
|---|---|---|---|
| Short Term Bank Facilities | 950.00 | CARE-NP A4+ [A Four Plus] | Revised from CARE-NP A3 |
| **Total Facilities** | **950.00 (Nine Hundred Fifty Million Only)** | | |

*Details of Facilities/Instruments in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the short-term bank facilities of Ambe Cement Private Limited (ACPL) to 'CARE-NP A4+' from 'CARE-NP A3'.

**Detailed Rationale & Key Rating Drivers**

The revision in the rating assigned to the bank facilities of ACPL factors in sharp deterioration in financial and operational performance of the company during FY22 (Audited, FY refers to the twelve-month period ending mid-July) and H1FY23 (Unaudited, refers to the six-month period ending mid-January 2023) leading to stressed debt service coverage ratios. The rating remains constrained by the company's 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 competitive nature of cement industry. The rating, however, continues to derive strength from the company's established track record of operations along with strong promoters, being part of Ambe Group of Companies, and experienced management team in the related field, moderate capital structure, product diversification and own brand.

*Going forward, the ability of the company to profitably increase its scale of operations 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 Weaknesses**

**Detorioration in financial performance during FY22 and H1FY23 amid industry-wide slowdown**

ACPL's capacity utilization was declined to 41% during FY22 from 58% during FY21 on account of decrease in market demand for cement in the country amid decline in construction activities. This coupled with lower price realizations led to decline in the company's total income in FY22 by 33.28% year-on-year (y-o-y) to Rs. 1,362 Mn. With the decline in total revenue, PBILDT of the company also declined by around 31.79% in FY22 to Rs. 95 Mn; however, with relatively stable margin of 6.95% in FY22 compared to 6.79% in FY21. Lower gross profit coupled with relatively higher interest expenses led to deterioration in interest coverage ratio of the company to 1.64x during FY22 from 2.33x during FY21. Total debt to gross cash accruals also deteriorated to 13.59x at the end of FY22 compared to 10.43x at the end of FY21, with impact of lower debt levels offset to a large extent by reduced GCA.

The decreasing trend in scale of operations continued in H1FY23, with average capacity utilization falling sharply to 15% from around 40% in H1FY22. Consequently, total income during H1FY23 declined 58.79% y-o-y to Rs. 274 Mn. Cement industry in Nepal continues to be impacted by slow market demand owing to lower capital expenditure by the government. Retail demand also remains muted owing to the tight liquidity and reduced credit appetite of BFIs. The increased industry capacity over the last couple of years means that the industry capacity utilizations are likely to remain below par over the near term. Rebound in scale of operations amid the ongoing industry headwinds remains a key monitorable aspect.

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

**Lack of backward integration and raw material price volatility risk**

ACPL manufactures cement through its grinding unit and does not possess its own clinker unit. Hence, the company needs to procure clinker from other local manufacturers which are also its competitors in cement industry. In addition, the company needs to import slag and other raw materials such as fly ash and gypsum from India. Raw material cost continues to be the major cost component of ACPL constituting around 80% of the net sales in FY22. 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 perspective.

**Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature. ACPL manufactures cement by procuring raw materials both locally and by importing. Raw material such as slag, fly ash and gypsum are imported from India for which advance payments need to be made, whereas clinker is procured locally for which company needs to purchase on cash basis. ACPL also needs to keep inventory for smooth operations and extend credit to its dealers, which leads to reliance on external borrowings for working capital requirements. Total operating cycle of the company was 210 days in FY22, which increased from 183 days in FY21 mainly due to decrease in average collection period and inventory holding period. 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 sanctioned limits was around 53% during last 12 months period ended mid-January, 2023.

**Presence in highly competitive and cyclical nature of cement industry**

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

**Key Rating Strengths**

**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 over seventeen years in the manufacturing of cement by grinding 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 Founding Chairman and Managing Director of Ambe Group. Mr. Sajjan Kumar Agrawal, Managing Director, has over 25 years of experience in trading and manufacturing sector. He is also director of Ambe Steels Private Limited. The board is aptly supported by an experienced management team across various functions.

**Moderate capital structure**

ACPL's overall gearing ratio improved to 0.98x at the end of FY22 from 1.45x at the end of FY21, mainly due to lower utilization of working capital borrowings amid lower scale of operations. The company had no long term debt borrowings at the end of FY22. With no major capex plans in pipeline, the company is expected to have comfortable debt to equity ratio in the near future. However, should the company increase its scale of operations in the coming years, rationalization of its debt through efficient working capital management will be critical from credit standpoint.

**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).

**Stable demand outlook of cement products in the country in the long term, however muted in the near term**

Demand of cement products in the country is 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. 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 continued emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures etc. is likely to benefit the cement manufacturers like ACPL.

However, with the construction sector in Nepal impacted by slower pace of economic growth coupled with relatively lower infrastructure spending by the government, the outlook of cement industry in Nepal is challenging in the near term. Also, in the recent budget presented by finance minister of Nepal for FY23, Government of Nepal allocated Rs. 161.56 Bn in the infrastructure sector, which was Rs. 2 Bn less compared to the previous fiscal year. While the government's long term emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures is likely to benefit the cement manufacturers like ACPL in the long term, the demand for cement is expected to be muted in the short term.

**About the Company**

ACPL is a private limited company, established in 2004, promoted by individuals involved in manufacturing and trading businesses for setting up clinker grinding plant in Parsa, Nepal. The installed capacity of the grinding unit is 1,000 metric tons per day (MTPD). The company manufactures Portland Pozzolana Cement (PPC), Ordinary Portland Cement (OPC) and Portland Slag Cement (PSC) and sells them under ten different brands.

Brief financial performance of ACPL during the past three years are given below:

(Rs. Million)

| For the year ended Mid-July | FY20 (Audited) | FY21 (Audited) | FY22 (Audited) |
|---|---|---|---|
| Income from Operations | 1,784 | 2,042 | 1,363 |
| PBILDT Margin (%) | 10.85 | 6.79 | 6.95 |
| Overall Gearing (times) | 1.98 | 1.45 | 0.98 |
| Interest Coverage (times) | 2.24 | 2.33 | 1.64 |
| Current Ratio (times) | 1.26 | 1.28 | 1.42 |
| Total Debt/Gross Cash Accruals (times) | 10.56 | 10.43 | 13.59 |

**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 A4+ [A Four Plus] |
| Short Term Bank Facilities | Non-Fund Based Facility | 40.00 | CARE-NP A4+ [A Four Plus] |
| **Total** | | **950.00** | |

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