PRESS RELEASE

RIDDHI SIDDHI CEMENT LIMITED
January 2024

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	8,424.48 (reduced from 8,432.80)	IRN BBB-	Reaffirmed
Short Term Bank Facilities	2,346.51 (reduced from 2,434.00)	IRN A3	Reaffirmed
Total	**10,770.99**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Ltd (Infomerics Nepal) has reaffirmed the long-term rating of IRN BBB- (Triple B Minus) to the long-term bank facilities of NPR 8,424.48 Mn. and IRN A3 (A Three) to the short-term bank facilities of NPR 2,346.51 Mn.

Detailed Rationale

The reaffirmation of ratings for the bank facilities of Riddhi Siddhi Cement Limited (RSCL) remains robust, underpinned by its backward integration for effective supply chain management along with locational advantage. The company's operational strength evident in a healthy operating margin of ~27% in FY23 primarily bolstered by reduced input costs, facilitated by the use of its own mines for limestone excavation. The rating also continues to take comfort from the operational synergies arising from being a venture of two reputed corporate houses of Nepal - "Shanker Group" and "Ambe Group", having an established track record in manufacturing and trading industry for more than four decades. Nonetheless, these rating strengths remain impacted by the company's limited track record in the Nepalese cement industry, leveraged capital structure, raw material price fluctuation amid liquidity crunch; associated regulatory risk and forex risk. Infomerics Nepal also takes note of the continued sales concentration of ~27% from top 10 customers in FY23. Going forward, the company's ability to generate adequate revenue/margin and improve capitalization & coverage indicators, while efficiently managing working capital requirement will remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Average financial profile

In FY21 and FY22, RSCL successfully generated a sizeable revenue base, reaching NPR 6,370 Mn and NPR 6,481 Mn respectively. However, in FY23, despite achieving a notable increase in cement sales volume by ~10%, the sales revenue declined to NPR 5,491 Mn. This decline was primarily attributed to unfavorable market conditions characterized by inflation, a liquidity crunch, and a sluggish construction industry, where the sales price of cement declined amid intense competition. Nevertheless, the operating profits margins remained healthy at ~27% in FY23. These margins were benefitted by low production costs; as the entire clinker requirements were manufactured in-house from its own backward integrated plants, coupled with a slight moderation in the cost of fuel. Going forward, the operating margins are expected to improve to some extent, given the recent price fall in the raw material inputs.

Backward Integration; secured by adequate limestone reserves

RSCL has achieved integration by setting up a clinker manufacturing units with the capacity of 2,760 TPD, which came in commercial operations in late 2019. The company currently owns three mines, all operating under its name. Out of the total nine mines, three mines are being used for limestone extraction, while the remaining are expected to be available in following years. These three mines are located ~ 33KM, ~50KM and ~87KM from the factory in Hetauda, Makwanpur district. The estimated aggregate deposits of all the mines taken together is expected to further boost the operational profile of the company going forward.

Operational synergies expected being a venture of Shanker Group and Ambe Group.
RSCL continues to benefit from being a part of the Shanker group as well as Ambe Group, mainly in the area of supply/distribution channel. Long operational track record of its group companies across various sectors including manufacturing, trading, insurance, hydropower and diverse experience of promoters could help RSCL to maintain healthy performance. RSCL also derives strengths from the financial flexibility of the promoter group. These groups are in business for more than four decades which provides an additional comfort regarding market presence/market knowledge.

Strategic Location of the Project
RSCL's manufacturing plant located at Hetauda, Makwanpur District provides a locational advantage in terms of logistic operation and management. The distance from Hetauda to the nearest Indian border at Birgunj is ~55 Km, which provides a benefit in terms of import of raw materials from India as well as third countries. In addition, RSCL has recently procure IS Mark (Indian Standard) required for export of cement to India and have already commenced commercialization of OPC cement in Indian border. Hence being in proximity to India border aids in reduced logistics costs to be incurred while export. Also, the factory being located in central Nepal having an equal access to other areas provide a comfort in terms of supply of its products across various regions of Nepal.

Government support for production-based industry
Nepal is a growing economy and is continuously focusing on development of various sectors. The budget for FY24 has focused on high and sustainable growth by building a production-based economy. Cash subsidy up to 8% shall be provided for export of cement. Concession up to 15% shall be given to industries consuming electricity of NPR 100 Mn or more monthly. Also, GoN[1] has allocated NPR 302 Bn for various capital expenditures which indicates growing demand for construction materials like cement products in developing public as well as private infrastructures, road, bridges and other public facilities.

Key Rating Weaknesses

Limited track record of operation
RSCL was partly in operation from FY2019, however full fledge operation for both the units were started from FY21, leading to a limited operational track record of three years. Though the company has been able to register healthy margin with sizeable revenue base within a short period of time, it's ability to further scale up its operation while maintaining its margin in long run remains to be seen.

Leveraged capital structure with high working capital requirement
The company's capital structure in FY23 has remained leveraged, with an overall gearing ratio of ~3.53x and total debt to EBITDA of 6.91x pertaining to a series of debt-funded capital expansion projects undertaken by the company, required for product diversification. High overall debt led to modest debt service coverage indicators of the company with interest coverage ratio and current ratio of 1.37x and 1.07x respectively in FY23. Further the operation of RSCL is working capital intensive as suggested by high utilization of working

[1] Government of Nepal

capital loan throughout the year. However, with the recently approved re-scheduling of the term loan, in tune with NRB's directive, RSCL's debt service coverage ratio (DSCR) is expected to remain comfortable over near to medium term. This is likely to alleviate the initial debt burdens, thereby improving cash flows.

Intense competition in the industry
Generally, the large cement producers with high brand recognition dominate the market. Due to the presence of large number of organized and unorganized players, the pricing power of the new entrants remains low, affecting the profitability amid competition. Currently there are ~55 cement industry and ~20 clinker manufacturing units in operation, with few additional units in pipeline. Together with the new upcoming units and existing units after capacity expansion, is expected to reduce the pricing flexibility going forward. Therefore, any significant increase in the cost of input materials is likely to have an effect on the industry's overall margins amid competition.

High sales concentration for cement
RSCL's sales concentration in FY23 remains high at ~27% of the total cement sales to top 10 customers. However, the concentration for the clinker sales has declined to ~26% in FY23 which was contemplated with company's long run plan to gradually increase capacity utilization of cement which in turn implies increase in consumption & decline in sales of clinker produced.

Vulnerability to cyclical trend and seasonal demand; risk of regulatory changes and forex risk
The cement industry is highly cyclical in nature and depends largely on the economic growth of the country. Hence, the company is exposed to cyclical trends in supply and demand in the industry, impacting the capacity utilisation, revenues and margins. Also, the construction and development expenditures are largely carried out in a specific season impacting the overall demand of the cement in Nepal. Moreover, cement industry in Nepal is also benefitted by the high custom levied on import, also being a volumetric production, transportation cost also remains high. Hence, any changes in the government regulations will have a huge impact on overall cement industry. Also, major portion of its raw materials are imported, exposing the company to foreign exchange risk.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

Past Rating Rationale:
Fresh bank loan rating assigned on July 2022

About the Company
Established in 2013, Riddhi Siddhi Cement Limited (RSCL) is a joint venture of Shanker Group and Ambe Group. RSCL is involved in production and sells of cement and clinker. The capacity of company stands at 2,760 tons per day for both the clinker and grinding units. The company produces Ordinary Portland Cement (OPC), Portland Slag Cement (PSC) and Portland Pozzolana Cement (PPC) under the brand of Riddhi Siddhi and Makwanpur cement. The manufacturing plant is located in Ratomate, Hetauda of Makawanpur district while RSCL's registered corporate office is situated in Central Business Park, Thapathali, Kathmandu. The company is currently utilizing more than 70% of its clinker manufactured for cement production, while remaining being sold to other local grinding units.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23

	(Audited)	(Audited)	(Unaudited)
Total Operating Income (in NPR Mn.)	6,370	6,481	5,491
EBITDA Margin (%)	26.18	18.03	26.92
Interest Coverage Ratio (x)	2.04	1.38	1.37
Current Ratio (x)	0.90	0.80	1.07
Overall gearing ratio (x)	3.57	3.43	3.53

Earnings Before Interest Tax Depreciation Amortization (EBITDA)
**Classification as per Infomerics Nepal's standard*

Annexure:1 Details of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	7,840.56	IRN BBB-
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	288.10	IRN BBB-
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	295.82	IRN BBB-
Fund Based Bank Facilities-Working Capital Loan	Short Term	2,345.18	IRN A3
Non Fund Based Bank Facilities- Counter Guarantee	Short Term	1.33	IRN A3
Total Facilities		**10,770.99**	

Analyst Contacts

Ms. Grishma Dhungana
Tel No.+977-1-4583304/4585906
grishma.dhungana@infomericsnepal.com

Ms. Priyanka Giri
Tel No.+977-1-4583304/4585906
priyanka.giri@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
Tel No.+977-1-4583304/4585906
rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:
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Infomerics Credit Rating Nepal Limited
Tanka Prasad Marga, Baneshwor Height, Kathmandu
Phone: +977-1-4583304/4585906
Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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