PRESS RELEASE

GHORAHI CEMENT INDUSTRY LIMITED

August 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BB+ (Is)	Downgraded from IRN BBB (Is)
Long Term Bank Facilities	8,091.96 (Enhanced from 8,037.53)	IRN BB+	Downgraded from IRN BBB
Short Term Bank Facilities	2,672.69 (Enhanced from 2,352.47)	IRN A4+	Downgraded from IRN A3+
TOTAL	**10,764.65**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has revised an issuer rating from IRN BBB (Is) [Triple B (Issuer)] to IRN BB+ [Double B Plus (Issuer)]. Issuers with this rating are considered to have the moderate risk of default regarding timely servicing of financial obligations.
Also, Infomerics Nepal has revised rating from IRN BBB (Triple B) to IRN BB+ (Double B Plus) assigned to long term bank facilities of NPR 8,091.96 Mn, revised rating from IRN A3+ (A Three Plus) to IRN A4+ (A Four Plus) assigned to short term bank facilities of NPR 2,672.69 Mn.

Detailed Rationale

The downgrade of ratings assigned to Ghorahi Cement Industry Limited (GCIL) and its bank loan facilities is primarily due to delay in debt repayment of Mid-July 2024[1], on account of liquidity pressure. The ratings also factor GCIL's deteriorating financial profile marked by decline in profitability during FY23 and 9MFY24, with significant decrease in EBITDA margin from ~18% in FY23 to ~2% in 9MFY24. Additionally, the rating also considers the stabilization risk associated with newly expanded brownfield project, which is in its initial stage of operation. Furthermore, the rating also factors working capital intensive nature of business operations, risk of regulatory changes, susceptibility to volatility in input costs, foreign exchange rates and realizations as well as cyclicality & seasonality in cement industry.
However, these rating weaknesses are partially offset by the continued support from its strong promoter groups- "Triveni Group" and "Vishal Group" -supported by an experienced management team that has long track record in cement industry. The ratings also consider the average capacity utilisation as well as backward integration secured by adequate limestone reserves and proximity of the project to raw material sources. Going forward, the company's ability to improve its liquidity position, maintain its capacity utilization along with timely realization of the envisaged benefits from the expansion project operation while improving profit margins and interest coverage, as well as reducing reliance on external debt will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter group and management team with long track record in cement industry.
GCIL benefits significantly from being a venture between "Triveni Group", and "Vishal Group", two

[1] Since delays are less than 30 days, they do not constitute as default as per Infomerics Nepal's policy on default recognition

large corporate houses in Nepal. Long operational track record of the two groups across various sectors including banking, manufacturing, trading, insurance, hydropower, real estate and diverse experience of promoters support the business risk profile of GCIL. Further, Triveni Group has around two decades of experience in cement manufacturing through various sister concerns. GCIL also derives strengths from the financial flexibility of its promoter group which is highlighted by financial support provided in the form of interest free loans to the company in recent periods. The company has seven directors on its board and is chaired by Mr. Purshottam Lal Sanghai. Additionally, the promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of the company.

Back ward Integration; secured by adequate limestone reserves and proximity of the project to raw material sources

GCIL has secured exclusive agreements for three limestone mines located within a distance of ~30-65 kms from the existing clinker plant. The mined limestone is transported to the plant via road. The company has the capacity to extract ~1.73 Mn MT of limestone annually from these mines, and the total reserves of the mines are estimated to be ~26.61 Mn MT. These reserves ensure long term availability of limestone which is a key raw material for clinker and cement manufacturers like GCIL.

Average capacity utilization

The capacity utilization of GCIL has been adequate over the past three years as reflected by the average capacity utilization of ~63% for clinker and ~79% for cement in the past three financial years ended FY23. However, the capacity utilization of GCIL slightly declined to ~58% for clinker and ~70% for cement as of 9MFY24, though expects to be increased in later months of fiscal year. Going forward GCIL's ability to manage the installed capacity especially considering the addition of clinkerization unit of 3,000 TPD and grinding unit of 1,400 TPD remains a key rating sensitivity which nevertheless is expected to be supported by the planned export to Indian market along the Nepalese border.

Key Rating Weaknesses

Deteriorating financial profile marked by decline in profitability during FY23 and 9MFY24

GCIL generates its revenue from sales of clinker and cement. Total operating income (TOI) of the company is in decreasing trend with y-o-y declines of ~13.92% FY22 and ~4.96% in FY23 decrement (~13.75% change in 9MFY24). Even though clinker sales declined by ~22% in FY23 as compared to FY22(from ~NPR 702 Mn to ~NPR 551 Mn), cement sale increased by 3% (from ~NPR 3,915 Mn to ~NPR 4,048 Mn). EBITDA margin of the company decreased to ~18% in FY23 from ~20% in FY22 leading to a decrement in the absolute figure from NPR 984 Mn in FY22 to NPR 844 Mn in FY23 which is on account of decline in GCIL's TOI by ~5%. Similarly, EBIDTA margin for 9MFY24 decreased significantly to ~2%, on the ground of lower sales realization and high raw material cost resulted from high transportation cost which led to loss and negative Gross Cash Accruals. Similarly, PAT margin of the company has also significantly decreased standing at 1.32% in FY23 and negative in 9MFY24.

Despite the influx of IPO proceeds, and repayment of bank facilities, the company remains highly dependent on loans and advances from directors for debt service coverage. However, the company continues to face challenges in settling its due on timely manner[2]. The interest coverage ratio and DSCR stood at 0.15x and 0.09x respectively in 9MFY24, although overall gearing ratio stood above 1x in both FY23 and 9MFY24. The company's ability to improve the factors affecting its revenues, cost of production and profitability will remain a key rating sensitivity.

[2] At the time of review, dues of Mid July 2024 are yet to be settled with consortium banks, although 30 days has not elapsed

Project stabilization risk

GCIL successfully completed its brownfield expansion project in mid-Apr 2024, increasing its clinker manufacturing capacity to 3,500 TPD. The project was completed at a cost of ~NPR 12,800 Mn, increased from the previous estimation, due to the continued capitalization of interest expenses and finishing expenses. Although the plant is now operational, the company remains exposed to risks associated with project stabilization with satisfactory operations due to its early stages. The timely realization of the envisaged benefits from the expansion project remains a key monitorable factor.

Working capital intensive nature of operations with stretch in liquidity

The operations of the company are working capital intensive in nature as the company is primarily engaged in the production of clinker and cement using raw materials sourced from imports, self-manufacturing, and local purchases. The company's operations are particularly working capital-intensive due to its practice of maintaining ample inventories of key raw materials to ensure uninterrupted production and company’s practice of extending reasonable credit terms to dealers and customers amidst increasing competition leading to increased reliance on working capital loans. The working capital-intensive nature of GCIL’s operations is further highlighted by working capital turnover ratio which is over 1x in last three years (FY21-FY23). The standard credit period for clinker sales is one month, while for cement sales, it is 60 days. In FY23, the company's operating cycle elongated to 232 days from 216 days in FY22.

Vulnerability to cyclical trend and seasonal demand; risk of regulatory changes, volatility in foreign exchange rates and raw material price

The cement industry is affected by cyclical trends in supply and demand, which in turn are linked to the economic growth of the country. Hence, the company is exposed to cyclical trends in supply and demand in the industry, impacting the capacity utilization, revenues and margins. Additionally, seasonality in construction and development expenditures can impact the industry's operation and overall demand for cement in Nepal. Moreover, cement industries in Nepal are 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. GCIL plans to meet all of its clinker requirements from its own clinkerization unit, but it procures other raw materials, such as iron ore, dry slag, fly ash, coal, and gypsum, from India and other countries. The prices of these raw materials are highly volatile due to their global linkages, which exposes the company to raw material price volatility risk. Furthermore, practice of procuring some raw materials in USD exposes the company to foreign exchange rate fluctuations

Analytical Approach: Standalone

Applicable Criteria:

Bank Loan Rating Methodology

Issuer Rating Methodology

Past Rating Rationale:

Ghorahi Cement Industry Limited: Bank Facilities and Issuer Rating Assigned

About the Company:

Incorporated in August 2007, Ghorahi Cement Industry Private Limited was later converted to Ghorahi Cement Industry Limited (GCIL) on March 7, 2021. GCIL is part of the “Triveni Group” and the “Vishal Group,” and is chaired by Mr. Purshottam Lal Sanghai, who is one of the major shareholders. GCIL has its integrated cement manufacturing plant situated in the Dang Valley of Western Nepal. GCIL is currently engaged in the manufacturing and selling of clinker, OPC, and PPC. The company has recently completed its brownfield expansion, enhancing clinker capacity to 3,500 TPD and grinding capacity to 1,600 TPD.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23	9MFY24
	Audited	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn)	5,731	5,857	5,042	4,791	3,100
EBITDA Margin (%)	10.99	15.76	19.52	17.61	2.04
Interest Coverage Ratio (x)	3.31	4.66	2.52	1.99	0.15
Current Ratio (x)	0.58	0.83	0.73	1.32	0.80
TOL/TNW (x)	1.61	1.88	2.01	1.47	1.42
Overall Gearing Ratio (x)	1.24	1.60	1.75	1.19	1.19
DSCR (x)	2.99	4.54	2.50	0.89	0.09

**Classification as per Infomerics Nepal standards*
Earnings before Interest Tax Depreciation Amortization (EBITDA)

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	6,083.98	IRN BB+
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	1,250.00	IRN BB+
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	757.98	IRN BB+
Fund Based Bank Facilities-Working Capital Loan	Short Term	1,730.91*	IRN A4+
Non-Fund Based Bank Facilities- LC/BG	Short Term	1,831.78*	IRN A4+
Total Facilities		**10,764.65**	

LC= Letter of Credit; BG= Bank Guarantee
**The total combined funded and non-funded working capital limit (excl Permanent working capital loan) shall not exceed NPR 2,672.69 Mn.*

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About Infomerics Credit Rating Nepal Limited:

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