PRESS RELEASE

RIDDHI SIDDHI CEMENT LIMITED

August 2024

Rating

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BBB- (Is)	Assigned
Long Term Bank Facilities	8,278.69 (reduced from 8,424.48)	IRN BBB-	Reaffirmed
Short Term Bank Facilities	2,321.01 (reduced from 2,346.51)	IRN A3	Reaffirmed
Total	**10,599.70**		

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BBB- (Is) [Triple B Minus (Issuer)]. Issuers with this rating are considered to have the moderate degree of safety regarding timely servicing of financial obligations.

Also, Infomerics Nepal has reaffirmed the rating of IRN BBB- (Triple B Minus) assigned to the long-term bank facilities of NPR 8,278.69 Mn and the rating of IRN A3 (A Three) assigned to the short-term bank facilities of NPR 2,321.01 Mn.

Detailed Rationale

The ratings assigned to Riddhi Siddhi Cement Limited (RSCL) and its bank facilities mainly factor in moderate financial performance with the improvement in the company's operating profit margins (OPM) in FY24 amid the economic slowdown impacting the industry-wide demand in the highly fragmented cement sector. The ratings also factor in infusion of equity capital from PE/VC [1] firms at premium at the beginning of FY25. The ratings also continue to consider 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, its backward integration for managing its supply chain, its improving brand recall and diverse distribution channel.

Nonetheless, the ratings mainly remain constrained by the company's leveraged capital structure coupled with stretched liquidity profile with largely sustained increment in working capital cycle and increased reliance on working capital debt. However, infusion of equity capital from PE/VC firms and the expected proceeds from the initial public offerings (IPO) are likely to support the gearing and debt coverage indicators, assuming full subscription. The company's operations also remain exposed to the demand and pricing dynamics in the cement industry, which are influenced by cyclical economic trends in addition to the competitive pressures. Any unfavorable movement in raw materials and other input prices could impact its margins. Going forward, the company's ability to maintain a healthy profitability profile, enhance capitalization and coverage metrics, while discreetly handling working capital levels and successfully executing an IPO, will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Average financial profile

In FY24, RSCL achieved a sizeable revenue of NPR 5,812 Mn, reflecting a modest growth of ~6% compared to NPR 5,467 Mn in FY23, despite unfavorable market conditions characterized by inflation, a liquidity crunch, and a sluggish construction industry, where the sales price of cement declined

[1] Private Equity and Venture Capitalist

amid intense competition. Nevertheless, the company improved its operating profit margins to 24.81% in FY24 from 18.72% in FY23, benefitted by low production costs; as the entire clinker requirements were manufactured in-house from its own backward integrated plants, coupled with significant reduction in international coal prices.

Moderate capacity utilization
In FY24, the company's cement production saw an increase of ~11% compared to FY23, leading to a higher capacity utilization of ~61%, up from ~55% in FY23. This improvement indicates a more efficient use of the installed cement capacity, surpassing the three-year average utilization of ~57%. On the clinker side, production also increased by ~19%, resulting in a capacity utilization of ~66% in FY24, improvement from the ~56% recorded in FY23, though still slightly below the three-year average of ~67%. These enhancements in capacity utilization reflect the company's improved operational efficiency and ability to better leverage its production capabilities in FY24 compared to FY23.

Backward Integration; secured by adequate limestone reserves
RSCL has strategically integrated its operations by establishing a clinker manufacturing unit with a capacity of 0.84 Mn MTPA, which commenced commercial operations in late 2019. The company owns and operates three limestone mines, strategically located ~33 km, ~50 km and ~87 km from its factory in Hetauda, Makwanpur district. Of the nine mines under RSCL's control, three are currently being utilized for limestone extraction, with the remaining expected to become operational in the coming years. The substantial aggregate deposits from these mines are projected to significantly enhance the company's operational profile moving 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.

Key Rating Weaknesses

Leveraged capital structure coupled with moderate debt coverage metrics
In FY24, RSCL's capital structure continued to remain leveraged, with an overall gearing ratio of 3.83x (3.59x in FY23), largely due to debt-funded capital expansion projects aimed at product diversification. The company’s total debt to EBITDA ratio improved to 7.62x from 9.98x in FY24, but the high debt levels resulted in moderate debt service coverage metrics in FY24, with an interest coverage ratio of 1.30x (0.89x in FY23) and a DSCR of 1.31x (1.11x in FY23). The equity infusion from PE/VC firms at the start of FY25 which is in process of equity conversion, along with the company's ability to raise an initial public offering and subsequently reduce debt reliance would significantly influence its financial trajectory.

Stretched liquidity profile
The company has reported sustained increase in its working capital cycle as reflected in the working capital intensity of ~53% in FY24 (~42% in FY23). This was mainly due to the elevated inventory levels amid coal purchases and limestone stocking. RSCL’s ability to control the working capital levels would remain critical given its stretched liquidity profile with ~94% utilisation of drawing power as of mid-May 2024 (~100% as of mid-Feb 2024), leaving it more vulnerable to any additional liquidity shocks.

High sales concentration for cement

RSCL's sales concentration in FY24 remains high at ~50% (~27% in FY23) of the total cement sales to top 10 customers. However, the concentration for the clinker sales has declined to ~21% in FY24 (~27% 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.

Intense industry competition coupled with vulnerability to cyclical trend & seasonal demand

The cement industry faces intense competition and is susceptible to cyclical trends and seasonal demand fluctuations. Capacity additions are often irregular due to the lengthy setup time and numerous players expanding during peak cycles. Additionally, construction and development spendings are seasonal, which impacts cement demand and has historically led to unfavorable price cycles. Profitability in the sector is also affected by volatility in input costs, such as raw materials, power, fuel, and freight. With over 60 cement producers and more than 20 clinker manufacturing units currently operating in Nepal, and additional units in development, market pricing power for new entrants remains limited. This high competition and upcoming capacity expansions are expected to constrain pricing flexibility, making the industry more vulnerable to input cost increases and potentially impacting overall margins.

Analytical Approach: Standalone

Applicable Criteria:

Issuer Rating Methodology

Corporate Credit Rating Methodology

Past Rating Rationale:

Riddhi Siddhi Cement Limited-BLR Surveillance-January 2024

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 with an installed grinding capacity of 0.73 Mn MTPA (excluding 0.24 Mn MTPA for PSC Cement which is closed) and clinker installed capacity of 0.84 Mn MTPA. The company produces Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC) under the brand of Riddhi Siddhi and Makwanpur cement. The manufacturing plant is located in Ratomate, Hetauda of Makwanpur district while RSCL's registered corporate office is situated in Central Business Park, Thapathali, Kathmandu. The company is currently utilizing ~79% 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	FY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	6,370	6,481	5,467	5,812
EBITDA Margin (%)	26.18	18.03	18.72	24.81
Interest Coverage Ratio (x)	2.04	1.38	0.89	1.30
Current Ratio (x)	0.90	0.80	1.13	1.09
Total Debt/GCA (years)	11.94	31.09	29.51	24.96
DSCR (x)	1.95	0.84	1.11	1.31
Overall Gearing Ratio (x)	4.25	3.43	3.59	3.83

**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Fund Based Bank Facilities- Term Loan	Term Loan	8,278.69	IRN BBB-
Fund Based Bank Facilities-Working Capital Loan	Short Term	2,119.68	IRN A3
Non-Fund Based Bank Facilities- Counter Guarantee	Short Term	1.33	IRN A3
Non-Fund Based Bank Facilities- Bank Guarantee (Proposed)	Short Term	200.00	IRN A3
Total Facilities		**10,599.70**	

Analyst Contacts

Mr. Utshav Bikram Malla
Tel No.+977-1-4583304/4585906
utshav.malla@infomericsnepal.com

Mr. Raunak Mulmi
Tel No.+977-1-4583304/4585906
raunak.mulmi@infomericsnepal.com

Relationship Contact

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

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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