R.M.C. Cement Private Limited: Long-term rating assigned; short-term rating downgraded

February 26, 2024

Summary of rating action

Instrument* (Amount in NPR Million)	Last Rated Amount	Current Rated Amount	Rating Action
Long-term loans (within short term loan limits)	-	(150)	[ICRANP] LBB+; assigned
Short-term loans; fund-based	410	200	[ICRANP] A4+; downgraded from [ICRANP] A3
Short-term loans; non-fund based	400	400	
Total	**810**	**600**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB+ (pronounced ICRA NP L Double B plus) to the long-term loans of R.M.C Cement Private Limited (RCPL). ICRA Nepal has also downgraded the company's short-term loan rating to [ICRANP] A4+ (pronounced ICRA NP A four plus) from [ICRANP] A3 (pronounced ICRA NP A three).

Rationale

The rating action mainly factors in the company 's high working capital intensity (net working capital to operating income) amid significantly high debtor days (285 days as of mid-July 2023), majority of which are in higher ageing buckets, thus raising concerns over its realisation prospects. The ratings also remain constrained by the sharp moderation in the company's debt service indicators with interest coverage ratio (ICR) of ~2 times in FY2023 as compared to ~6 times in FY2022, when last rated, mainly owing to spiked usage of debt during the interim, as opposed to generally nil debt levels. The ratings also remain impacted by the sustained reduction in the company's profitability in cement manufacturing segment (amid increasing competition and continued pressure in realisations), which was partly supported by start of bitumen trading. ICRA Nepal further takes note of the intense competitive pressures in the industry with many established players/brands, while RCPL remains a much smaller player. The company's margins are also exposed to the interest rate volatility and cyclicality in the demand of construction materials.

Nonetheless, the ratings factor in the company's experienced promoters and management team, being a part of the RMC Group. The rating also continues to factor in the presence of the Group's own operational greenfield unit, mitigating the concerns arising out of RCPL being a standalone grinding unit. With generally low utilisation of working capital debt, the company has adequate financial flexibility as only ~3% of its drawing power was utilised as of mid-July 2023 (even after excluding debtors aged more than 180 days), which also remains a rating positive. The ratings also positively factor in the revenue diversification through the trading of bitumen, which has supported the company's profitability amid margin pressures in the cement segment. Going forward the company's ability to reduce its debtor levels/ageing, working capital intensity and report sustainable improvements in debt servicing indicators would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Experienced promoters – The company is a part of the RMC Group which has more than 25 years' experience in manufacturing and selling of construction materials. Rajesh Metal Crafts Private Limited (rated at [ICRANP] A1), the group's flagship unit has primarily been in the business of manufacturing sheets and pipes since 1993. RMC derives a major chunk of its clinker requirements form the mine-base cement company of the group viz. Palpa Cement Industries Limited (PCIL rated [ICRANP] LBB/A4) , which somewhat reduces the concerns arising from RCPL being a standalone grinding unit. The experienced background of promoters has aided the company in exploring bitumen trading segment, which has remained the company's key revenue/profitability driver in recent years.

Adequate financial flexibility – RCPL has generally utilised only a minimal chunk of its drawing power (~3% utilised as of mid-July, 2023, excluding the aged debtors which are ineligible for bank financing). The unutilised drawing power provides the company with adequate financial flexibility to manage any short-term liquidity stress.

Increased revenue diversity supporting the operating profit margins – The company's venture into trading of bitumen since FY2022, has provided revenue diversification avenues (~44% contribution in FY2023 revenues) during the demand slowdown in cement. While the company’s operating profit margins (OPM) have moderated to ~7% in FY2023 from ~10% in FY2022, this was mainly owing to continual margin pressures in the cement segment and hence the trading of bitumen with higher margins has supported the overall OPM.

Credit challenges

High working capital intensity and aged debtors – RCPL's working capital intensity continues to remain high at ~61% as of mid-July 2023, mainly amid the spiked debtor days to 285 days in FY2023 from 263 days in FY2022. Furthermore, a sizeable portion of debtors (~61% as of mid-July 2023) were above 180 days, which are ineligible for bank financing and also raises concern regarding their recovery. With the slowdown in cement demand, the company forayed into the trading of bitumen from H2FY2022 onwards with relatively liberal credit terms to construction contractors (as seen in bitumen segment debtors as of mid-July 2023 being higher than the entire segmental sales revenue for FY2023). The slowdown in pace of government spending and delays in release of payment to contractors by the government has led to piling up of debtors in the bitumen segment along with the old debtors related to the cement segment. Despite having low working capital debt utilisation, a significant rise in aged debtors, with total debtors at levels almost at par to the company’s net worth, remains a major concern. Therefore, the company’s ability to judiciously improve its working capital cycle would remain crucial and remains a key rating sensitivity.

Sharp moderation in coverage indicators – The company reported sharp moderations in ICR to 2.0 times in FY2023 from 6.2 times in FY2022, mainly on account of spiked working capital loan utilisation during the first half of FY2023 for financing the trading of bitumen along with the impact of spiked borrowing rates. Nonetheless, the working capital loan utilisation at the year-end was minimal, leading to gearing of ~0 times, which provides some comfort.

Intense competition impacting the profitability from the cement segment – The cement industry in Nepal is highly fragmented, comprising several players. Since RCPL is a small player, it faces stiff competition from large manufacturers having sizeable economies of scale and better brand recall. The increased capacity expansion in the country in the recent years, which remains higher than the current demand, has gradually lowered the pricing flexibility. The increased competition and resultant pressure in realisation have resulted in muted profitability for the cement segment, despite volumetric sales growth of ~6% in FY2023. However, relatively better margins in the bitumen trading segment supported the profitability indicators to an extent. Nonetheless, the company remains exposed to the cyclical nature of construction industry creating uncertainty regarding the demand and cash cycles. Volatility in cash flow due to this could pose challenges, especially during periods of weak demand and debt recovery, like the present.

Link to the previous rating rationale:
Rationale_RMC-Cement_Bank-loan-rating-Surveillance_November-2022

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Link to the applicable criteria:
Corporate Credit Rating Methodology

About the company

ICRA NEPAL

Established in 2009, R.M.C. Cement Private Limited operates a cement grinding unit with an installed capacity of ~0.2 million metric tonnes per annum (MTPA). The company has been producing the Portland slag cement (PSC) and ordinary Portland cement (OPC) since 2011.The company's plant is located at Simara of Bara district, while RCPL's registered office is in the Central Business Park, Thapathali, Kathmandu. RCPL is a family-owned business, with Mr. Shrawan Agrawal, his two sons (Mr. Rajesh K. Agrawal and Mr. Vishnu K. Agrawal) and two grandsons holding the entire equity stake. RCPL is a part of the RMC Group, which has over 25-years' presence in the construction materials manufacturing sector, mainly steel pipes and sheets.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Operating income (OI; Revenues in NPR million)	1,104	819	337	890	718
OPBDITA/OI (%)	7.9%	9.1%	6.7%	9.7%	7.2%
Total debt/Tangible net worth (TNW; times)	-	-	-	0.6	0.0
Total outside liabilities/TNW (times)	0.2	0.4	0.2	0.8	0.3
Total debt/OPBDITA (times)	-	-	-	4.3	0.1
Interest coverage (times)	4.6	15.3	6.1	6.2	2.0
DSCR (times)	2.0	13.0	6.4	5.3	2.0
Net working capital/OI (%)	38%	42%	97%	89%	61%

Source: Company data

Annexure-1: Instrument Details

Instrument	Previous rated limit (NPR Million)	Current rated limit (NPR Million)	Rating action
Long term loan limits (A)	-	**(150)**	[ICRANP] LBB+; assigned
Fund-based; Permanent working capital loans - within Trust Receipt Loan	-	(150)	
Short term loan limits (B)	**810**	**600**	[ICRANP] A4+; downgraded from [ICRANP] A3
Fund-based; Overdraft	10	10	
Fund-based; Demand Loan	400	190	
Fund-based; Trust Receipt Loan (within Letter of Credit)	(360)	(360)	
Non-fund based; Letter of Credit (LC)	400	400	
Non-fund based; Bank Guarantee	(20)	(20)	
Grand total (A+B)	**810**	**600**	

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About ICRA Nepal Limited

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Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

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