

**Rating Rationale**  
**Shaurya Cement Industries Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	10,700.00	<b>CARE-NP BB [Double B]</b>	Assigned
Short Term Bank Facilities	3,442.00	<b>CARE-NP A4 [A Four]</b>	Assigned
<b>Total facilities</b>	<b>1,4142.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Shaurya Cement Industries Private Limited (SCIPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of SCIPL are constrained by negative impact caused by the global pandemic Covid-19 on pre and post completion of project, project stabilization risk associated with post implementation, exposure to volatile interest rates and presence in highly fragmented & competitive nature of cement industry. The ratings however, derives strength from resourceful and experienced promoters in cement and other manufacturing industries which provide operational synergies, low project implementation risk due to advance stage of construction, competitive advantage over the standalone grinding units, locational advantage of the plant site, demand of cement products in the country expected to grow in the long term and receipt of all key approvals for setting up the clinker and grinding plant.

**Detailed Description of the Key Rating Drivers**

***Key Rating Weaknesses***

***Likely negative implications of COVID-19 on the construction of project and project stabilization risk associated with post implementation of the project***

The global outbreak of Coronavirus disease (COVID-19), has affected Nepal as well. With lockdown imposed by Government of Nepal, Commercial Operation date (COD) may get affected. The project is exposed to post implementation risk related to stabilization of operations and satisfactory capacity utilizations generating sufficient operating cash flows. Also ability of the company to generate profitability margins as projected is crucial for achievement of the debt service coverage indicators.

***Exposure to volatile interest rate***

Nepalese banking sectors are fixing interest rate on lending based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is subject to volatile interest rate.

***Presence in highly fragmented & competitive market and cyclical nature of cement industry***

SCIPL will be operating in a highly competitive market, dominated by the large cement manufactures with wide brand acceptability. The demand of cement is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Further, 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 2 year.

**Key Rating Strengths**

***Resourceful and experienced promoters in cement and other manufacturing industries which provide operational synergies***

SCIPL is a joint venture of experienced and established players in the field of cement and other manufacturing industries. The company is managed under the overall guidance of the Company's Board of Directors (BoD) who possesses wide experience in the related field. Mr. Sulav Agrawal, Chairman of SCIPL, is one of the leading businessman of Nepal with experience of over 15 years in manufacturing industry. Mr. Rajesh Kharel, Director has experience of over 10 years in related business. Mr. Sharad Golcha, Director has experience of over 10 years in manufacturing and construction business. Extensive track record and the experienced background of BOD's and their groups could provide operational synergy to SCIPL mainly through already established distribution network and business relationships developed over the years.

***Competitive advantage over the standalone grinding units***

For limestone mining, the company has entered into lease agreement with its group company/sister concern and the mines are located at Katari Municipality, Udaypur District of Nepal at a distance of 41.50 Km from the plant site. The mines has an estimated limestone deposit of around 40 Million Metric Tonnes with an estimated life of more than 60 years based on 3000 Tonnes Per Day of clinker plant. Now, Nepal is manufacturing its own clinker and dependence upon the import of clinker has reduced substantially over the period. Clinker manufacturing units have cost competitive advantage over the standalone grinding units as the average manufacturing cost per MT of an integrated cement plant is less as compared to a standalone grinding unit.

***Diversified products and use of latest technology and automation likely to provide cost benefits***

SCIPL proposes to manufacture low alkaline cement, which is expected to replace imports and expected to yield higher profitability margins. Currently, the demand of low alkaline cement which is majorly required in large hydro projects and construction sites, is being met through imports which attracts import duty. Also, the company will be using the latest technology which is expected to provide an extra edge to the company. The company is also setting up a fully automated packing unit to ensure effortless loading and stacking directly to the loaders. Also the company will be setting up a fully functional robotic lab to ensure automated quality standards.

Further, a 5.5 MW Waste Heat Recovery plant will be functional by December 2020, thereby reducing energy cost of the company.

***Demand of cement products in the country 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. It is highly probable that the national economy will be in need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Further, the government's high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures and estimated GDP growth of 7.00% as included in the budget for FY20-21 is likely to benefit the cement manufacturers like SCIPL

***Locational advantage of the plant site***

The plant site is well connected to East-West Highway and with major cities and town nearby. Further, the mines are located close to the clinker and grinding unit which reduces logistics cost. Also, the plant is located in the eastern part of the country where presence of other clinker based cement manufacturing companies is limited. Majority of companies in this part of Nepal are grinding units which may provide a ready market for SCIPL's secondary product clinker along with less competitors.

***Low project implementation risk due to advanced stages of construction***

The total envisaged project cost is Rs. 13,396 Mn which is proposed to be financed at a debt: equity ratio of 80:20 with debt of Rs. 10,700 Mn and equity of Rs. 2,696 Mn. Financial closure has been achieved for the entire debt portion. Currently, ~91% of the project construction has been completed in terms of cost till July 04, 2020 and 85% in terms of physical progress. Major works related to the project has been completed till date and all the required machinery is available on site with erection works going on. Commercial Operation Date of cement plant is projected to be achieved by mid-October 2020. However, smooth and satisfactory operations of the project are yet to be seen. Timely completion of the project within the cost estimates and satisfactory operations thereafter are the key rating sensitivities.

***Receipt of all key approvals***

The company has obtained IEE approval to operate at plant capacity of 3000 TPD and has also received all the key approvals from Government Offices and Regulators. SCIPL has already obtained approval for production capacity from Department of Industry and has received approval from Nepal Electricity Authority for 20 MW electricity.

**About the Company**

Shaurya Cement Industries Private Limited (SCIPL) is a private limited company which was incorporated on September 17, 2017. SCIPL is setting up a green field clinker and cement manufacturing unit in Mirchaiya, Siraha District of Nepal with proposed installed capacity of 3000 Metric Tons Per Day (MTPD) for both clinker unit and cement unit. COD of both the cement plant is projected to be achieved by October 2020.

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**Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	10,700.00	<b>CARE-NP BB</b>
Short Term Bank Facilities	Working Capital Loan	2,490.00	<b>CARE-NP A4</b>
Short Term Bank Facilities (Proposed)	Working Capital Loan	952.00	<b>CARE-NP A4</b>
<b>Total</b>		<b>14,142.00</b>	