

## Sarovar Agro Industries Private Limited

### Rating

| Facility/Instrument        | Amount<br>(Rs. in Million)  | Ratings <sup>1</sup>          | Rating Action |
|----------------------------|---|-------------------------------|---------------|
| Long Term Bank Facilities  | 600.00  | CARE-NP B+<br>[Single B plus] | Assigned      |
| Short Term Bank Facilities | 500.00  | CARE-NP A4<br>[A Four]        | Assigned      |
| <b>Total Facilities</b>    | <b>1,100.00</b><br><b>(One thousand and One Hundred Million Only)</b> |                               |               |

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long-term bank facilities and the rating of 'CARE-NP A4' to the short-term bank facilities of Sarovar Agro Industries Private Limited (SAIPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SAIPL are primarily constrained by the project implementation and funding risk associated with its under construction agro project. The ratings also factor in the susceptibility to price fluctuation of seasonal agro products, fragmented and competitive nature of industry and exposure to volatile interest rates.

The ratings, however, derive strengths from experienced promoters and directors in the related field, rice being major Nepalese diet leading to stable demand and government support for agriculture based industry.

*Going forward, the ability of the company to timely execute the project within the projected time and cost estimates will be the key rating sensitivities. Post commencement of operations, the ability of SAIPL to achieve the envisaged sales and profitability would also be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### High project implementation and funding risk associated with under-construction project

The company is setting up a new rice steaming plant at a total estimated cost of Rs. 795 Mn which is proposed to be funded in a debt-equity ratio of ~75:25 i.e. bank loan of Rs. 596 Mn and remaining from equity of Rs. 199 Mn. Partial financial closure for the debt component has been completed with the bank as on mid- December 2022, (for Rs. 315 Mn of the total term loan requirement of Rs. 596 Mn). Financial closure for the remaining portion is ongoing and a swift resolution of the same will remain crucial from timely execution of the project. Till August 2022, SAIPL had achieved financial progress of ~22% corresponding to around 25-30% of construction work. Hence, the company remains exposed to the partial funding yet to be tied up and implementation risk associated with the project.

#### Susceptibility to price fluctuation of seasonal agro products

Paddy is a seasonal crop and harvesting is generally dependent on timing and intensity of monsoon. Furthermore, price of rice is highly volatile, as its production and price also depend on factors like area under production, yield for the year, demand-supply scenario and inventory carry forward of last year. Furthermore, the supply is also dependent upon availability of seed, impacts of pests, as well as overall climatic condition during the year, exposing the fate of the company's operations to vagaries of nature.

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

### Fragmented and competitive nature of industry

Import and processing of rice is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier, low technology and capital requirement. Low product differentiation of SAIPL's product results in high competition from other players including traders, millers and wholesalers. Considering the fragmented and competitive nature of industry, millers have low pricing power. Furthermore, Nepal being an agriculture based nation, consumption for household purpose is produced in domestic levels as well.

### Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on a quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

### Key Rating Strengths

#### Experienced promoters and management team in the related field

SAIPL is promoted by three individual promoters who have experience in the related field. Mr.Saudagar Prasad Jaiswal, Chairman, has an experience of more than fifteen years in rice processing industries. Mr.Ashok Kumar Jaiswal, board member, has an experience of more than 16 years in the rice processing industries. Mr. Sarvesh Jaiswal, another board member, has six years of experience in procurement, distribution & warehousing of agro-based products produced in Nepal & abroad. The board is aptly supported by experienced management team across functions/ departments.

#### Rice being a major Nepalese diet leading to stable demand outlook

Rice is a preferred staple food for majority of Nepalese. It ranks first among all the cereal crops in terms of acreage area, production and consumption. Rice also has a cultural significance and with growing population, its consumption is also expected to increase, thereby leading to a stable demand outlook over the medium-long term. As per Crop Development Directorate published by Department of Agriculture, rice being the most important staple food of Nepalese people, supplies around 40% of food calorie intake. Nepal has one of the world's highest per capita consumption of rice in the world.

### About the Company

Sarovar Agro Industries Private Limited (SAIPL) is a private limited company incorporated on January 22, 2020 to produce and sell parboiled rice from de-husking of paddy. The registered office of SAIPL is at Rupanedhi-5, Lumbini, Nepal. The company is yet to start its operation and is currently under construction. The proposed paddy steaming plant will have 12 MT per hour capacity with 40,640 MT annual processing of paddy into rice.

#### Annexure 1: Details of the Facilities rated

(Rs. in Million)

| Nature of the Facility     | Type of the Facility | Amount<br>(Rs. in Million) | Rating                     |
|----------------------------|----------------------|----------------------------|----------------------------|
| Long Term Bank Facilities  | Fixed Term Loan      | 600.00                     | CARE-NP B+ [Single B Plus] |
| Short Term Bank Facilities | Fund Based Limit     | 500.00                     | CARE-NP A4 [A Four]        |
| <b>Total</b>               |                      | <b>1,100.00</b>            |                            |

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