

## Sarovar Agro Industries Private Limited

### Ratings

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	540.00 (decreased from 600.00)	CARE-NP B+ [Single B plus]	Reaffirmed
Short Term Bank Facilities	560.00 (increased from 500.00)	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>1,100.00</b> <b>(One Billion and One Hundred Million Only)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long-term bank facilities and the rating of 'CARE-NP A4' assigned 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 continues to be constrained by project implementation risk and operations stabilization risk thereafter associated with its under construction agro project. The ratings also remain constrained by susceptibility of seasonal agro products to price and supply fluctuation, fragmented and competitive nature of the industry, and exposure to volatile interest rates. The ratings, however, continue to derive strength from experienced promoters and management team in the related field and stable demand outlook for rice in the Nepalese market and government support for agro-based businesses.

*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

##### Residual project implementation risk and operations stabilization risk thereafter

SAIPL is setting up a new rice steaming plant at a total cost of Rs. 795 Mn, which is being funded in debt-equity ratio of ~75:25, i.e. bank loan of Rs. 596 Mn and remaining Rs. 199 Mn from equity. Till September 2023, the company had achieved financial progress of ~81% (funded by debt of Rs. 417 Mn and equity of Rs. 205 Mn) as compared to ~22% till August 2022. Likewise, the physical progress was ~90%, up from ~30% till August 2022. Civil construction has been majorly completed; all primary machineries and equipment have been imported from India; and only few concluding works are pending before the company starts production. With this, the project is expected to come into operations by mid-March 2024. Although in final stages of construction, the company continues to be exposed to the residual risks associated with project implementation and subsequent operations stabilization risk.

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

In Nepal, paddy is planted with the onset of monsoon between June and August and harvested between September and November. The planting and production of the crop is dependent on the timing and intensity of monsoon. Furthermore, price of rice is highly volatile as production and price of paddy depend upon various factors like area under production, yield for

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

the year, demand-supply scenario, and inventory carry forward of last year, among others. Likewise, its supply is dependent on availability of seed, impact of pests, monsoon during the particular year, as well as overall climatic condition, exposing the fate of the company's operation to vagaries of nature.

### **Fragmented and competitive nature of industry**

Import and processing of rice is highly fragmented due to the presence of several organised/ unorganised players owing to low entry barriers, such as low technology and capital requirements. Low product differentiation of SAIPL's products results in high competition from other players, including traders, millers, and wholesalers. Considering the fragmented and competitive nature of the industry, the millers have low pricing power. Hence, the ability to continuously improve and maintain product quality is a key factor for SAIPL to capture and sustain market share.

### **Exposure to volatile interest rates**

SAIPL's interest expenses are based on a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly 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 changes in interest rates. Additionally, since the debt to equity ratio of the company is relatively debt heavy, SAIPL's debt servicing burden is likely to remain on a higher side during initial years of operations. Higher interest rates than envisaged could result in squeezed margins of the company, impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to interest rate volatility.

### **Key Rating Strengths**

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

SAIPL is promoted by three individual promoters with extensive experience in the relevant field. Mr. Saudagar Prasad Jaiswal, Chairman, has more than 15 years of involvement in the rice processing industry. Mr. Ashok Kumar Jaiswal, board member, has served as the Proprietor of R.K. Agro Industries for the last 16 years and has been a director of H.L.D Foods Pvt. Ltd. for five years. Mr. Sarvesh Jaiswal, another board member, has been working as a Manager of Vidhi Trade Concern for the last seven years and has also been a director of H.L.D Foods Pvt. Ltd. since 2018 A.D. The board is further supported by experienced management team across several functions/ departments.

#### **Stable demand outlook for rice in the Nepalese market**

Rice is the most preferred staple food for the majority of Nepalese. It ranks first among all the cereal crops in terms of acreage area, production, and consumption. It also carries special cultural, religious and traditional values in the country. Consequently, Nepal has one of the world's highest per capita consumption of rice at 155.8 kg. Further, with demand higher than domestic production amidst growing population, rice is expected to have a stable demand outlook over the medium-long term.

#### **Government support for agriculture-based businesses**

Agriculture is a major sector of the Nepalese economy providing employment to over 60% of the population. It contributes 24.70 percent of the GDP (Economic Survey, 2023). Therefore, the development of agriculture sector is key for the development of the national economy. Agriculture is a priority sector of the government and NRB guidelines have instructed banks to extend at least 13 percent of their total loans to this sector.

### About the company

Sarovar Agro Industries Private Limited (SAIPL) is a private limited company incorporated on January 20, 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 (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	540.00	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	409.70	CARE-NP A4 [A Four]
	Non-Fund Based Limit	150.30	
<b>Total</b>		<b>1,100.00</b>	

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