

Rajapur Sugar and Chemicals Industries Private Limited

Ratings

| Facilities/Instrument | Amount (Rs. in Million) | Ratings ¹ | Rating Action |
|---------------------------|--|-------------------------|---------------|
| Long Term Bank Facilities | 1,530.00 | CARE-NP B [Single B] | Assigned |
| Total Facilities | 1,530.00 (One Billion and Five Hundred Thirty Million Only) | | |

* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B' to the long-term bank facilities of Rajapur Sugar and Chemicals Industries Private Limited (RSCIPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of RSCIPL is primarily constrained by high implementation risk associated with its under-construction sugar mill project, funding for which is yet to be tied-up. The rating also factors in susceptibility to raw materials availability, price fluctuation risk related to seasonal agro products and working capital intensive nature of business operations related to sugar industry. The rating, however, derives strengths from experienced promoter in manufacturing sector, locational advantage of the plant site, stable demand outlook of sugar industry over the medium term and government support for sugarcane production.

Going forward, the ability of the company to complete the project within the envisaged time and cost and satisfactory operations thereafter will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

High project implementation risk associated with nascent stage greenfield project

RSCIPL is setting up sugar manufacturing plant with installed capacity of 2,500 Ton Crushing Per Day (TCD) along with distillery unit (for the production of spirit from molasses) and co-generation unit. The total cost of setting up the plant is estimated to be Rs. 1,686.80 Mn proposed to be financed in debt equity mix of 80: 20 (term debt of Rs. 1,350 Mn and equity of Rs. 336.80 Mn). Debt is yet to be tied up. The project is at nascent stage of construction which includes partial acquisition of land. Around 4% financial progress is achieved till mid-January, 2024 funded by equity. Commercial operations is expected to commence from July 2025. Given the preliminary stage of the project coupled with needs to secure financing for its debt component, the company remains exposed to the risks associated with the implementation of the under-construction project within the envisaged time and cost. Furthermore, given the relatively higher debt component in the funding mix, the gearing profile and debt servicing burden on the company is expected to be on the higher side during the initial years of operations.

Working capital intensive nature of business operations related to sugar industry

The demand for sugar lasts throughout the year; however, the production (crushing season) is concentrated between September and April. Given the seasonality involved in the industry, most of the sugar companies hold sugar inventory varying from 3 to 6 months as on July end requiring high working capital requirements. Sugar companies need to have sufficient liquidity cushion at any point in time to meet both their operational expenses and debt obligations. Hence, efficient

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

management of the seasonal working capital requirements amidst fluctuating prices in a regulated environment is a critical factor for all sugar companies.

Susceptibility to raw materials availability amid climatic risk

The major raw material for RSCIPL is sugarcane which are procured from the local farmers. Prices are highly volatile in nature on account of direct dependency on the sugarcane crop and its yield. Sugar industry is susceptible to agro climatic risks including pest & diseases, more specifically, the monsoons, temperature and soil conditions, demand-supply dynamics, etc. that influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. Lower output of sugarcane will have an adverse impact on the revenue generation of the entities.

Price fluctuation risk related to seasonal agro products

Minimum Support Price (MSP) of sugarcane is determined by the government (inclusive of government subsidies for cane farmers) while sugar prices are market driven, thus profit margins related to sugar sales are volatile in nature. Thus, company's ability to maintain stability in margins and cash flows through optimum utilisation of by- products and revenue diversification remain key monitorable aspect.

Key Rating Strengths

Experienced promoter in manufacturing sector

RSICPL is promoted by two promoters (husband and wife) having experience in manufacturing business. Mr. Yagya Bahadur Oli, Chairman, has more than a decade of experience in manufacturing and marketing industries. Some of the other business ventures of Mr. Oli includes Deuti Gutkha Industries, a company involved in manufacturing of gutka and tobacco products for around two decades in western part of Nepal with total operating income of Rs. 3,511 Mn during FY23 (FY22: Rs. 2,987 Mn). Other business ventures include Deuti Packaging, Deuti Soap and Chemicals Pvt. Ltd., Lotus Tobacco Industries, Hotel Megha and Deuti Real Estate Pvt. Ltd. The management is supported by experienced team members.

Locational advantage

The plant site is located at Bardiya district, which is one of the sugarcane producing area in Nepal. The company derives comfort from its strategic location in terms of easy accessibility of raw materials since the company will be only manufacturer in its region within 300 km distance. The factory will be located at border of Kailali & Bardiya District and the possible areas for procurement will be Kailali, Kanchapur, Banke & Bardiya. The four districts had combined production of 359,388 Mt. It is also connected to potential market leading to less transportation cost. Furthermore, the western region has better recovery rates on account of favorable climatic conditions for growing sugarcane. Sustained availability of sugarcane for crushing remains crucial for sugar production.

Industry Outlook

Consumption of sugar has been growing over the years with its applicability for household consumption as well as for industrial purpose, while the domestic productions remain inadequate. According to Agriculture Ministry, annual requirement for sugar stands at 260,000 tons based on consumption. Sugar industry is also one of the potential industries in Nepal to become self-reliant in sugar production since the major raw materials for sugar production are locally available. With favorable topography and climate, terai region of Nepal is suitable for sugarcane farming. Sugarcane is one of the cash crops of Nepal. Government has thus set higher import tariff on sugar and sugar confectionery at 30% from FY24 (40% till FY23) for the purpose of encouraging domestic production. On the other hand, government also regulates sugarcane industry by fixing Minimum Support Prices (MSP) and also provides subsidy (Rs 70 per quintal of sugarcane) for protecting domestic sugarcane farmers.

Key demand drivers leading to industrial growth and industrial outputs with government prioritizing sugarcane farming and sugar production in the country, the prospect of this sector looks encouraging over the medium-term.

About the Company

Rajapur Sugar and Chemicals Industries Private Limited (RSCIPL) is a private limited company incorporated on September 10, 2023 for setting up sugar manufacturing plant at Rajapur, Bardiya, Nepal with total installed capacity of 2500 Ton Crushing Per Day (TCD) for production of a sugar. Besides sugar, by-product of the sugarcane includes molasses, bagasse and press mud. The expected commercial operation date (COD) of the project is mid-July 2025.

Annexure 1: Details of the Facilities Rated

| Nature of the Facility | Type of the Facility | Amount (Rs. in Million) | Rating |
|---------------------------|----------------------|----------------------------|-------------------------|
| Long Term Bank Facilities | Proposed Loan | 1,530.00 | CARE-NP B [Single B] |
| Total | | 1,530.00 | |

Contact us

Analyst Contact

Ms. Monika Rawal
977-01-4012630
monika.rawal@careatingsnepal.com

Mr. Santosh Pudasaini
+977- 980231285
pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
+977 9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.