

Shaurya Cement Industries Private Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating ^[1]	Rating Action
Long Term Bank Facilities	10,700.00	CARE-NP BB; ISSUER NOT COOPERATING* (Double B; ISSUER NOT COOPERATING*)	Reaffirmed "Issuer not cooperating; Based on best available information" (Notice of Withdrawal)
Short term Bank Facilities	3,442.00	CARE-NP A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	Reaffirmed "Issuer not cooperating; Based on best available information" (Notice of Withdrawal)
Total Facilities	14,142.00		

Details of Facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

CRNL has been seeking information from Shaurya Cement Industries Private Limited (SCIPL) to monitor the rating(s) vide e-mail communications/letters dated May 3, 2021; May 10, 2021, May 31, June 18 and June 23, 2021 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL's opinion is not sufficient to arrive at a fair rating. CRNL will monitor/watch the rating once for a minimum period of 6 months and notify the Securities Board of Nepal (SEBON) and public with regards to the withdrawal of rating. If after the monitoring of the rating there is no cooperation from the Client, then after, CRNL may withdraw the rating.

Further, SCIPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating of Shaurya Cement Industries Private Limited bank facilities will now be denoted as **CARE-NP BB; ISSUER NOT COOPERATING* (Notice of Withdrawal)**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on July 08, 2020 the following were the rating strengths and weaknesses

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

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

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

Presence in highly 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 businessmen 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 associate company 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 have 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.

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 SC IPL's secondary product clinker along with less competitors.

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.

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	CARE-NP BB Issuer Not Cooperating (Notice of Withdrawal)
Short Term Bank Facilities (Proposed)	Working Capital Loan	3,442.00	CARE-NP A4 Issuer Not Cooperating (Notice of Withdrawal)
Total		14,142.00	

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