

Sonapur Minerals and Oil Limited

Ratings

Facilities	Amount	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Revised to CARE-NP C and withdrawn
Short Term Bank Facilities	-	-	Revised to CARE-NP A4 and withdrawn

Details of facilities/instruments rated in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long-term bank facilities of Sonapur Minerals and Oil Limited (SMOL) to 'CARE-NP C' from 'CARE-NP BB+', and the rating assigned to the company's short-term bank facilities to 'CARE-NP A4' from 'CARE-NP A4+'. CRNL has also subsequently withdrawn the ratings upon the company's request to withdraw the ratings along with 'No Objection Certificate' received from the company's lender (consortium leader) on behalf of all the consortium member banks.

Key Updates

The revision in the ratings assigned to the bank facilities of SMOL majorly factors in the recent shut-down of manufacturing operations of the company due to electricity supply cut-off by Nepal Electricity Authority (NEA) as the company had substantial dues in electricity tariff with NEA. The ratings factor in subdued financial performance of the company in FY22 marked by lower scale of operations and deterioration in all major financial indicators, and continued stress in the company's liquidity profile reflected by current ratio of 0.80x at the end of FY22, amid disruption in the company's operations while capex for capacity enhancement was ongoing. The ratings also take cognizance of slowdown in construction sector of Nepal resulting subdued demand for cement owing to low capital expenditure by the government.

Key financial updates

Total operating income of SMOL declined by 18.72% year on year to Rs. 2,325 Mn in FY22 on account of decrease in scale of operations coupled with decreased price realizations from sale of cement. Revenue from sale of clinker was negligible in FY22 as clinker production during the year was primarily for captive consumption. Profit margins of the company declined in FY22 on account of lower capacity utilization resulting higher proportion of fixed cost which deprived the company from scale benefits, and increased interest expenses. PBILDT margin of the company declined to 19.07% in FY22 from 22.46% in FY21 owing to increased cost of production mainly raw materials and coal coupled with lower price realizations. The moderation in financial profile of the company in FY22 was mainly on account of disruption in production amid the ongoing brownfield expansion project. Furthermore, the company has undergone multiple cost escalations in the past for the project along with significant time overrun, which has led to leveraged capital structure on account of capitalized interest during construction phase. This has increased the cost of the ongoing expansion and stabilization of enhanced capacity will remain a concern especially when the cement industry in Nepal continues to be impacted by slow market demand owing to lower capital expenditure by the government.

About the Company

Sonapur Minerals & Oil Private Limited was incorporated in June 13, 2008 as a private limited company which was later converted into public limited company as Sonapur Minerals & Oil Limited on July 22, 2020. The company is presently engaged in manufacturing of cement and has installed capacity of 1,250 MTPD and 2,300 MTPD of clinker and grinding respectively. The company is selling OPC under the brand name 'Sona Cement OPC' and PPC under the brand name 'Sona Shree PPC Cement' and 'Sonatech PPC Cement'.

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

Brief financials of SMOL for last three years ended FY22 are given below:

(Amount in Rs. Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	2,669	2,922	2,325
PBILDT Margin	24.25	22.46	19.07
Overall Gearing (times)	2.37	2.16	2.39
Interest coverage (times)	2.07	3.46	2.22
Current ratio (times)	0.94	0.93	0.80
Total Debt/GCA	14.47	11.03	25.57

A: Audited

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About CARE Ratings:

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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).

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