PRESS RELEASE

EVEREST SUGAR & CHEMICAL INDUSTRIES LIMITED
August 2022

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	198.97	IRN BB+	Assigned
Short Term Bank Facilities	1,166.03	IRN A4+	Assigned
Total	**1,365.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal (Infomerics Nepal) has assigned the long term rating of IRN BB+ (Double B Plus) to the long term bank facilities of NPR 198.97 Mn and IRN A4+ (A Four Plus) to the short term bank facilities of NPR 1,166.03 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Everest Sugar & Chemical Industries Limited (ESCIL) factors in the established and adequate track record of operation with experienced promoter group and management team especially in the sugar industry leading to a healthy relationship with its suppliers and customers. The ratings also derive strength from the healthy operating efficiency of the company with the production of double refined Sulphur less sugar backed by the addition of co-generation power plant, satisfactory financial risk profile marked by low gearing level with adequate debt protection metrics and stable demand of sugar.

These rating strengths are partially offset by the concentrated revenue profile of ESCIL, susceptibility of its business to regulatory changes and fluctuation in sugar prices and vulnerability to availability of raw materials. Further, the ratings also factor in the cyclicality associated in the sugar business and dependence on monsoon thereby affecting the cane recovery rate. The company's ability to scale up its revenue along with the improvement in operating margin supported by improvement in revenue share of non-sugar segment will remain the key rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established track record with experience promoters and management team

The three-decade long experience of the promoters and management team in the sugar industry, their strong understanding and healthy relationship with the suppliers and customers is expected to support the business profile.

Healthy operating efficiency, driven by integrated operation

ESCIL has a cane crushing capacity of 5,500 TCD (tonne crushed per day), leading to a healthy operating margin of ~15% in FY22. The company's integrated operation backed by a co-generation power plant with a capacity of 9MW and a power purchase agreement (PPA) with Nepal electricity Authority (NEA) for supply of excess energy at a fixed realisation rate is further expected to partially offset volatility in profitability of the sugar segment.

Good financial risk profile

Financial risk profile remains good marked by low gearing level of ~1.2x in FY22, due to better accruals and progressive reduction in long term debt. Debt protection matrices has also improved with interest coverage of

~4.0x and debt service coverage of ~2.1x in FY22, on account of higher operating profitability with improvement in cash generation.

Demand supported by regulatory provisions

The GoN[1] significantly raised the custom tariff[2] on imported sugar, following the import driven crises experienced by the domestic sugar industry in FY18. Also, in FY19, GoN implemented quota restriction on sugar import, indicating government regular intervention in support of domestic industry. Also, with the lifting of quota restriction, NRB has allowed importing sugar and sugar confectionery on 100% cash margin, which remains positive to the domestic sugar producer like ESCIL. Hence, these kinds of regulations are expected to discourage the import leading to a stable demand going forward.

Key Rating Weaknesses

Susceptibility to regulatory changes and fluctuation in sugar prices

Domestic sugar players remain susceptible to the volatility in sugar prices, which depends on domestic and international production. Also, as sugar being an essential commodity, the government regulates pricing of sugarcane, which is fixed for each crushing season normally before the harvest based on the recommendation of Ministry of Agriculture and Livestock Department. Any substantial increment in such price, the cost of production is likely to increase suppressing the margins and coverage indicators.

Concentrated revenue profile

The revenue profile of ESCIL remains concentrated as its revenue remains driven by sugar sales. The sales of ESCIL are majorly concentrated to sugar segment with 80-85% in FY21 with slight moderation from ~95% in FY20. Nonetheless with the commissioning of its own power generation unit some diversification is expected in terms of electricity sales to NEA.

Vulnerability to availability of raw materials and price fluctuation; being a seasonal product.

ESCIL wholly depends on the local farmers for the sugarcane requirement for sugar production. The availability of the raw material during the crushing season is supreme for the company's smooth operation and business profile. Sugarcane production is continuously declining due to decline in the cultivation area, farmer's dissatisfaction regarding the payments, increase in the input materials cost like fertilizers, resulting in limited availability of sugarcane thereby shortening of crushing period with low capacity utilization. Hence affecting the overall revenue and profitability of the industry.

Analytical Approach: Standalone

Applicable Criteria:

Corporate Credit Rating Methodology

About the Company:

Established in July 1993, ESCIL is a public limited company having its head office at Janakpur of Dhanusha District. ESCIL is an agro base sugar manufacturing company with an installed sugarcane crushing capacity of 5,500 TCD. ESCIL has recently in FY21, shifted its production from regular/normal sugar to double refined Sulphur less sugar. The manufacturing unit is located at Gaushala of Mahottari District. ESCIL has co-generation power plant capacity of 9MW and has already signed a PPA for 3MW of excess electricity to NEA. ESCIL is promoted by the Saraff family and Agrawal family having extensive experience in sugar industry.

[1] Government of Nepal

[2] Custom tariff of 15% till FY18 to 30% in FY 19 and 40% in FY20 onwards.

Financial Indicators (Standalone)

For the year ended* As on	FY19	FY20	FY21	FY22
	Audited			Provisional
Total Operating Income (in NPR Mn.)	2,129	3,415	935	1,371
EBITDA Margin (%)	2.11	11.34	8.45	15.43
Interest Coverage Ratio (x)	0.34	5.48	2.23	3.95
Current Ratio (x)	0.97	1.37	1.27	1.40
Overall Gearing Ratio (x)	3.98	0.41	1.11	1.18

** Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	198.97	IRN BB+
Fund Based Bank Facilities- Overdraft/ Working Capital Loan	Short Term	1,045.00	IRN A4+
Fund Based Bank Facilities (Proposed)	Short Term	111.03	IRN A4+
Non Fund Based Bank Facilities	Short Term	10.00	IRN A4+
Total Facilities		**1,365.00**	

Analyst Contacts

Ms. Grishma Dhungana
Tel No.+977-1-4483304/4485906
grishma.dhungana@infomericsnepal.com

Mr. Nibesh Manandhar
Tel No.+977-1-4483304/4485906
nibesh.manandhar@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini
Tel No.+977-1-4483304/4485906
rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit **https://infomericsnepal.com/**

Infomerics Credit Rating Nepal Limited
Tanka Prasad Marga, Baneshwor Height, Kathmandu
Phone: +977-1-4483304/4485906
Email: info@infomericsnepal.com
Web: www.infomericsnepal.com

Disclaimer: Ratings assigned by Infomerics Nepal are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics Nepal reserves the right to change, suspend or withdraw the credit ratings at any point in time. Ratings assigned by Infomerics Nepal are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are 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 us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs 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/ AOPs in addition to the financial performance and other relevant factors