

PRESS RELEASE

GAURISHANKAR CEMENT PRIVATE LIMITED September 2022

Rating

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	6,732.75	IRN BB-	Assigned
Total	6,732.75		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 6,732.75 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Gaurishankar Cement Private Limited (GCPL) derive strength from its institutional promoters supported by qualified and experienced board with proficient management team. Further, the full financial closure for the debt portion has already been achieved which remains positive to GCPL. The ratings also factor in the secured business with a presence of operational standalone grinding units near project vicinity and the strategic location of the project with scope of export going forward. These rating strengths, however, are constrained by exposure to implementation risk given its nascent phase of construction. Further the rating also notes GCPL's exposure to interest rate risk given high reliance on bank finance for funding, risk of cyclical trend & demand and regulatory risk. Going forward, the ability of the company to complete the project on or before time within the budgeted cost and timeline remains a key rating factor.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Promoted by Institutional promoters; supported by an experienced and qualified board with proficient management team in the related field

GCPL is promoted by three institutional promoters and one individual promoter. These institutional promoters are standalone grinding units having combined grinding capacity of 2,400 TPD, which are already in operation. The promoters are further backed by the qualified and experienced board with proficient management team having prior exposure in the related field. Mr. Shiromani Dhakal is the project head having more than four decades of experience in cement industry.

Operation secured by pre-established market for the proposed project

GCPL is promoted by three institutional promoters having a standalone grinding units namely- M. Jaypee Cement (1,000 TPD), Garima Cement (1,000 TPD) and Mahashakti Cement (400 TPD) in a vicinity of 2-3 Kms from the project location. Hence, GCPL with a clinkerisation capacity of 2,500 TPD is expected to wholly meet the clinker requirement of its existing sister concern, thereby supporting the operation risk profile of the company going forward.

Strategic Location with scope of export.

The manufacturing plant of GCPL is proposed to be located at Kapilvastu, Rupendehi District, provide a locational advantage in terms of operation and management. Project proximity to Indo-Nepal Border via major border towns of Krishnanagar, Nepalgunj & Bhairahawa is expected to ease the logistic going forward. Also, government through its budget has announced a cash rebate up to 8% on the products having high possibility

of export like clinker, cement, steel etc., thereby prioritising a domestic production and consumption amidst the rising trade deficit. Hence remain positive to GCPL with the scope of export going forward.

Key Rating Weaknesses

Risk related to timely project implementation

GCPL is implementing a debt-funded project at a cost of ~NPR 8,977 Mn for setting up a clinkerisation unit with a capacity of 2500 TPD at Kapilvastu, Lumbini in western region of Nepal. The project plan envisages commencement of commercial operation in three years from the construction, with significant activities on the ground yet to be initiated. The project is expected to be funded in a mix of both debt and equity ratio and is already roped with M/s Everest Erectors P. Ltd for civil construction work. The project faces implementation risk, given its scale and scope, uncertainty regarding technical output and efficiency. This however has partially offset by the fact that full financial closure has already been achieved for the debt portion. Any significant cost or time overrun may affect cash flow and debt protection matrices, therefore remains a key rating sensitivity factor. Hence considering, the nascent stage of the project, it is exposed to implementation and execution risk which could further impact time and cost estimate.

Exposure to intense market competition constraining scalability

The cement industry is highly fragmented in nature with the presence of a large number of organized and unorganized players spread across various regions. There are already well-established players in the market coming with projects at affordable prices, thereby giving competition to GCPL which is in the nascent stage of construction. This however is mitigated by the fact that the sister company having a standalone grinding units are operating near the vicinity of the project, thereby supporting the operational risk profile going forward.

Vulnerability to cyclical trend and seasonal demand; risk of regulatory changes.

The cement industry is highly cyclical in nature and depends largely on the economic growth of the country. Hence, the company is exposed to cyclical trends in supply and demand in the industry, impacting the capacity utilisation, revenues and margins. Also, the construction and development expenditures are largely carried out in a specific season impacting the overall demand of the cement in Nepal. Moreover, cement industry in Nepal are also benefitted by the high custom levied on import, also being a volumetric production, transportation cost also remains high. Hence, any changes in the government regulations will have a huge impact on overall cement and allied industry.

Interest rate risk amid recent liquidity crunch

The Interest rates on deposits and borrowing remains a significant factor in the Nepalese economy. In line with NRB's directives, the BFIs typically charge interest rate on loans by adding a premium to the base rate which are revised on a quarterly basis. The interest rates charged by BFIs have been historically volatile over the past 2-3 years and thus borrowing from banks and financial institutions exposes GCPL to risk of interest rate volatility.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

GCPL is a private limited company established with an objective to construct and operate a 2500 TPD clinker manufacturing unit in Shivaraj Municipality-06, Kapilvastu, Lumbini. The company is promoted by three institutional promoters and one individual.

Tanka Prasad Marg, Baneshwor Height, Kathmandu, Nepal Contact No. +977-1-4483304, 4485906
Email: info@infomericsnepal.com, Website: www.infomericsnepal.com

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan (TL)	Long Term	6,732.75	IRN BB-
Total Facilities		6,732.75	

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



Infomerics Ratings Nepal