

PRESS RELEASE

SONAPUR MINERALS AND OIL LIMITED

January 2024

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BBB-(Is)	Reaffirmed
Long Term Bank Facilities	5,429.35 (enhanced from 3,883.88)	IRN BBB-	Reaffirmed
Short Term Bank Facilities	1,994.00 (reduced from 3,756.12)	IRN A3	Reaffirmed
Total	7,423.35		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed issuer rating of IRN BBB-(Is) [Triple B Minus (Issuer)], long term rating of IRN BBB- [Triple B Minus] to the long term bank facilities of NPR 5,429.35 Mn and short term rating of IRN A3 [A Three] to the short term bank facilities of NPR 1,994.00 Mn.

Detailed Rationale

The reaffirmation of issuer rating and bank loan facilities ratings of Sonapur Minerals and Oil Limited (SMOL) derive strength from its experienced promoters and management team with long track record of operations, backward integration secured by adequate limestone reserves and proximity of the project to raw material sources. Also, the ratings factor in successful completion of initial public offering (IPO) amounting to ~NPR 2,920 Mn during FY24. These rating strengths are partially offset by its leveraged capital structure with decline in TOI in FY23, implementation & stabilization risk associated with the enhanced capacity and high sales concentration. The ratings also factor the risk of regulatory changes, susceptibility to volatility in input costs and realizations as well as cyclicity & seasonality in cement industry. Going forward, the ability of the company to ramp up its operations with timely realization of envisaged benefits from enhanced project while improving its capacity utilization and managing its raw material price fluctuation will remain a key rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team with long track record of operations

SMOL has an operational track record of more than 15 years in cement manufacturing. SMOL is promoted by industrialists and traders of Nepal along with other shareholders. Mr. Ratanlal Tayal is the Chairman of the company with more than 38 years in business with involvement in varied sector. The promoters are also involved in other business of rosin and turpentine followed by trading of cycles, papers, cosmetics, fiber cables, etc. Further, the promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of the company.

Backward Integration; secured by adequate limestone reserves and proximity of the project to raw material sources

SMOL's operating efficiency remain supported by the backward integration in the form of captive limestone mines located at the proximity to the factory site. SMOL currently has a mining license for three limestone mines which is at the distance of ~38-45 kms from its existing clinker plant. The two Promoter companies have one mining license each and total remaining estimated reserve of all five mines including Promoter companies is 24.36 Mn MT and these licenses are granted for a maximum period of 24 years by the Department of Mines and Geology. The estimated aggregate deposits of all the mines (including Promoter's) taken together is expected to further boost the operational profile of the company going forward.

Completion of Initial Public Offering (IPO)

SMOL successfully raised ~NPR 2,920 Mn (including premium) from its IPO issuance in September 2023. As per the prospectus published prior to issuance of share, the proceeds were projected to be utilized for expenditure towards inventories and current assets, payment to regular/capital creditors along with sight/usance letter of credit payables, and repayment of loan of ~NPR 896 Mn, ~NPR 1,000 Mn and ~NPR 1,000 Mn respectively. The above-mentioned agendas are intended to be executed in FY24 which are expected to improve the financial indicators going forward.

Key Rating Weaknesses

Financial risk profile marked by declining TOI and leveraged capital structure

Total Operating Income (TOI) saw a decline of 24.17% in FY23 y-o-y to NPR 1,801 Mn on account of sluggish sale due to lower demand amidst slowdown in economic activities affecting the average price realizations given the intense competition within the industry. Furthermore, the production of cement and clinker capacity has decreased to 29% and 44% in FY23 from 36% and 58% in FY22 respectively, majorly on account of expansion related activities and fluctuating power supply from NEA. However, the company was able to maintain its EBIDTA margin at ~19% in FY22 and FY23. Capital structure stood leveraged with overall gearing of 2.52x in FY23 vis-à-vis 2.10x in FY22 and interest coverage stood moderate at 1.53x in FY23, which however deteriorated from 2.31x in FY22. The deterioration in ratios was mainly due to increase in long term loan on account of ongoing expansion project of the company.

Project implementation risk and stabilization risk

SMOL is undertaking capacity enhancement of clinker unit from 1,250 TPD to 1,650 TPD for which the company has already tied up a loan of ~NPR 1,247 Mn (i.e. 80% debt of the project) in September 2023. Also, SMOL is in process of installation of Vertical Roller Mill (VRM), a technology that improves efficiency and productivity of cement manufacturing process, for which ~90% of the work has been completed as of December 2023 and is expected commence operations from Mid July 2024. Although, the majority of capital expenditure has been incurred, the company is still exposed to the risk associated with project implementation and satisfactory operations thereafter.

High sales concentration

SMOL's sales concentration has increased in recent years with top 10 customers contributing ~78% of total sales in FY23 compared to ~54% in FY22. Further, ~26% of total sales was made from single customer during FY23, leading to higher customer concentration risk.

Vulnerability to cyclical trend and seasonal demand; risk of regulatory changes and raw material price volatility

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 industry. SMOL expects to meet 100% of its clinker requirements from its own clinkerization unit. Apart from clinker, the company procures iron ore, clay, fly ash, coal, gypsum etc. which are all dependent on the market and hence any volatility in the price has a direct bearing on profitability of the company. Therefore, any significant increase in the cost of input materials is likely to have an impact on the industry's overall margins.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

Past rating rationale:

[Fresh Bank Loan Rating assigned on Jan 2023](#)

[Issuer Rating assigned on Nov 2022](#)

About the Company:

Incorporated in June 2008, Sonapur Minerals and Oil Private Limited was later converted to Sonapur Minerals and Oil Limited (SMOL) in July 22, 2022. The company is presently engaged in manufacturing and selling OPC under the brand name "Sona Cement" and PPC under the brand name "Sona Shree Cement". The business operation of the company is managed by its Managing Director, Mr. Nipesh Tayal.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23
	Audited	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	2,669	2,922	2,375	1,801
EBITDA Margin (%)	23.38	22.40	18.98	19.63
Interest Coverage Ratio (x)	2.00	3.48	2.31	1.53
Current Ratio (x)	0.87	0.87	0.76	1.54
Overall Gearing Ratio (x)	2.03	1.89	2.10	2.52

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	4,512.35	IRN BBB-
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	917.00	IRN BBB-
Fund Based Bank Facilities- Short Term Loan	Short Term	144.00	IRN A3
Fund Based Bank Facilities- Short Term Loan	Short Term	600.00	IRN A3
Non Fund Bank Facilities- Letter of Credit	Short Term	1,250.00	IRN A3
Total Facilities		7,423.35	

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About Infomerics Credit Rating Nepal Limited:

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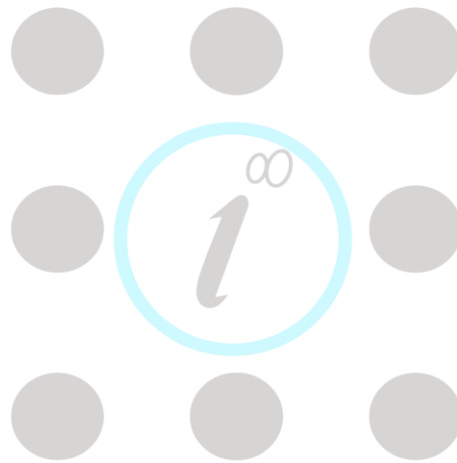
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