

## Sri Ram Sugar Mills Limited

### ICRA Nepal assigns [ICRANP] IPO Grade 5 to the proposed Rights Issue of Sri Ram Sugar Mills Limited

Instrument/Facility	Issue Size	Grading Action (August 2017)
Rights Issue (equity)	NPR 890 million	[ICRANP] IPO Grade 5 (Assigned)

ICRA Nepal has assigned an “[ICRANP] IPO Grade 5”, indicating poor fundamentals, to the proposed rights issue offering (equity) of Sri Ram Sugar Mills Limited (SRSM). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the grading categories 2, 3 and 4, the sign of + (plus) appended to the grading symbols indicate their relative better position within the grading categories concerned. API is proposing to come out with 300% rights issue of 89,03,949.81 numbers of equity shares of face value NPR 100/- each to be issued to existing shareholders at par.

The assigned grading takes into account the weak operational and financial profile of SRSM which has operating capacity of 3000 TCD (tonnes crushed per day) sugar mill and 40 KLPD (kilo litres per day) distillery in Rautahat district in the Central Development Region of Nepal. Sustained losses and liquidity crunch has resulted in delayed payments to farmers which in turn has resulted in steep decline in cane availability for the company. The company has incurred continuous losses at net level in the last 10 years and operating losses in the last 4 years which has resulted in complete erosion of net worth. The company’s recovery rate (amount of sugar produced per ton of cane crushed) too has fluctuated considerably in the last 12 years indicating weak operational performance of the mill. The advances from the current promoters (in lieu of the rights issue being graded) have been used to pay past cane dues, which should result in increased access to sugar cane for the company in the next sugar season (defined as the period from October to September). Nevertheless, given the weak track record of the company in terms of recovery rate, and also high landed cost of cane (on account of high transportation charges), the company’s cost of production is expected to remain high despite the prevailing high sugar prices and thus the return to the equity holders is expected to remain extremely subdued.

As per the provisional results, the company achieved a net loss of NPR 116 million over net sales of NPR 367 million during 9M FY2017 as against net loss of NPR 156 million over net sales of 583 million during FY2016. The cane crushed during sugar season 2016-17 was the lowest in the last 12 years at 66421 MT.

#### Company Profile

Sri Ram Sugar Mills Limited (SRSM), incorporated in 1992, is involved in manufacturing of sugar and allied products. The company was initially promoted by Golcha group (prominent business group in Nepal). The factory is located in Rautahat district in the Central Development region of Nepal in close proximity of the Indo-Nepal border. The company has a crushing capacity of 3000 TCD and distillery capacity of 40 KLPD where it manufactures rectified spirit and Extra Neutral Alcohol (ENA). In the recent period, Golcha group has diluted their ownership from 53% to 29% by selling it to Vishal group which now owns 23% stake in the company. The capital of the company is distributed among promoter and public in the ratio of 91:9<sup>1</sup>. Furthermore, there are other institutional promoters as well as foreign company who have made investment in SRSM.

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<sup>1</sup> Out of public holding of ~9% of total share capital ~3% is arrears.



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