

Rating Rationale

Real Steels Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating	Rating Action
Long Term Bank Facilities	320	CARE-NP B + [Single B Plus]	Assigned
Short Term Bank Facilities	620	CARE-NP A4 [A Four]	Assigned
Total Facilities	940 (Rs. Nine Hundred Forty Million Only)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned Rating of ‘CARE-NP B +’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Real Steels Private Limited (RSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RSPL are constrained by funding risk of the project as the financial closure is yet to be achieved, expected exposure to risk of volatile interest rates, project implementation & stabilization risk, raw material price volatility risk & foreign exchange fluctuation risk. The ratings also factor in presence in highly fragmented & competitive nature of steel industry. The ratings, however, derive strength from experienced promoters & management in the related field, demand of steels products in the country, locational advantage & scope of export and product diversification.

Timely financial closure of the project, completion of the project within the cost estimates and satisfactory operations thereafter are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weakness

Financial closure yet to be achieved and expected exposure to volatile interest rates

The estimated cost of the project is Rs.416.38 Million, which is proposed to be funded through equity of Rs. 141.38 Million and debt of Rs. 320.00 Million in Debt equity ratio of 2.26:1. The project is exposed to the funding risk as the financial closure of the project is yet to be achieved. Further, due to tight liquidity in the market, the interest rate has been high and volatile during the

last 12 months which exposes the company to the volatile interest rates in the banking system. Timely financial closure of the project is the key rating sensitivity.

Project implementation risk and associated project stabilization risk

The project of the company is in initial stage and the construction works at the site are just started. The project is still in the implementation stage and is continues to remain exposed to the risks associated with project implementation and satisfactory operations thereafter. Delays in project execution cannot be totally ruled out, given that there are no major developments towards construction and financial closure for the debt portion yet to be made. The company projected to achieve commercial operation date during January 2019 and considering the present status of works the same seems to be challenging.

Raw material price volatility risk and foreign exchange fluctuation risk

RSPL does not have any backward integration for its basic raw material (HRC/CRC) for producing products like MS pipes and would majorly imports from India. The prices of the HR coils are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. The raw material cost is projected to contribute around 80% of the total operating income of the company, thus, any volatility in prices of the same impacts the profitability of the company. Further, the majority of its raw material requirements is proposed to be met through imports and the price of the same will be linked to USD, for which it is exposed to the foreign exchange fluctuation risk.

Presence in highly fragmented and competitive nature of steel industry

The iron and steel industry is intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of steel and pipes industry is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. However, diverse application of steel and pipes insulates RSPL from a downturn in any one particular industry. The producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Key Rating Strength***Experienced promoters and management in the related field***

RSPL is promoted by traders and businessmen from Birgunj City of Nepal. RSPL is managed under the overall guidance of the Company's Board of Directors (BoD) who possesses wide experience in the industry and trading. Mr. Prem Kumar Jatiya is the Chairman and Managing Director of the Company. Mr. Jatiya, has been involved in different business for more than 18 years. Mr. Dipal Khanna, Executive Director, holds Chartered Accountancy degree from India and is also engaged in the trading of TMT bars, MS Pipes and other hardware items. However, the scale of the current operations of the entities engaged by promoters in the similar business to the RSPL is low in comparison to the projected scale of operations of RSPL.

Demand of steels products in the country

Currently different infrastructure and industries are developing in Nepal, which generates high demand for the iron and steel products. Further followed by devastating earthquake of April 2015, Government commitment towards infrastructure and the rebuilding the housing sector has increased demand of iron and steel products in Nepal. Further, the government's continued thrust on the construction, infrastructure development and power sector and targeted GDP growth of 8% is likely to benefit the long products manufacturers like RSPL.

Locational advantage and scope of export

The plant site is located around 15 Kms from Birgunj dry-port, that makes the location of the plant near to the Indian Border and large Indian State Bihar and give RSPL an advantage of supply of raw material at lower transportation cost. Further, RSPL can exploit opportunity of exporting its products to nearby places of India.

Product diversification

RSPL will manufacture MS Pipe that has great usage in construction, automobile, chemical and oil industries including residential housing, shed construction. Shutter patti and shutter guide will be manufactured which will be used at several places for safety purposes. The company will offer its customers these shutters in varied Sizes. Further RSPL will sell Hot Rolled Coil (HRC) and Cold Rolled Coil (CRC) by cutting it in different sizes.

About the Company

RSPL is a private limited company promoted by traders and businessmen from Birgunj mainly engaged in trading businesses for setting up of MS Steel Pipe plant in Parsa district of Nepal. The project is located at Bagahi-28, Birgunj of Nepal with expected operation date of Mid-January 2019. The company will manufacture MS Pipes, Shutter Patti, Shutter Guide and other related products with annual production capacity of 30,000 tons of MS Pipes, 15,000 tons of Shutter Patti, 9,000 tons of Shutter Guide and 9,000 tons of Hot Rolled Coil (HRC) and Cold Rolled Coil (CRC) per year. The envisaged total cost of the project is Rs. 461.38 Million and RSPL has incurred Rs. 49.35 Million over the project till August 16, 2018 and the same is funded through equity capital.

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Annexure 1: Details of the Facilities

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities (Proposed)	Term Loan	320.00	CARE-NP B+
Short Term Bank Facilities (Proposed)	Working Capital	620.00	CARE-NP A4
Total		940.00	