

**Rating Rationale**  
**Mainawati Steel Industries Private Limited**

**Rating**

Facilities	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	226.61	CARE-NP BBB- [Triple B Minus]	Revised from CARE NP BBB [Triple B]
Short Term Bank Facilities	5,390.81	CARE-NP A3 [A Three]	Reaffirmed
<b>Total Facilities</b>	<b>5,617.42 (Increased from Rs. 4,965 Mn)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating to ‘CARE-NP BBB-’ for the long-term bank facilities and reaffirmed ‘CARE-NP A3’ assigned to the short-term bank facilities of Mainawati Steel Industries Private Limited (MSPL).

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of Mainawati Steel Industries Private Limited (MSPL) takes into account deterioration in debt service coverage indicators, increase in gearing level coupled with dip in the profitability margins during FY19 (audited, refers to 12 months period ended mid-July 2019). The ratings derive strength from established and long track record of operations along with strong promoters and experienced management team in the related field, comfortable operational and financial profile characterized by growth in sales. The rating also factors in liquidity profile supported by liquid investments in listed shares, diverse product range catering to wide spectrum of industries with established marketing setup and demand of steels products in the country. The ratings are, however, constrained by raw material price volatility risk and foreign exchange fluctuation risk, working capital intensive nature of operations, exposure to volatile interest rates and presence in highly fragmented and competitive nature of steel industry. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Strength**

*Established and long track record of operations along with strong Promoters and experienced management team in the related field*

MSPL has an operational track record of more than two decades in manufacturing of MS black pipes, galvanized pipes, tubes and pipes with an installed capacity of 90,450 MTPA for various products. The promoters of MSPL have an experience of over two decades in the tubes & pipes industry. MSPL derives strength from its strong promoters and being a part of the Vishal Group of Companies, which have a strong

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking. MSPL is managed under the overall guidance of its two-member Board of Directors (BoD) which includes eminent Businessmen/Industrialists with wide experience in the manufacturing sectors. Mr. Tulsi Ram Agrawal is the Chairman of MSPL, and has more than 45 years of experience in manufacturing industry, banking sector, insurance sector and trading business. He is the Chairman of NIC Asia Bank Limited (rated CARE NP A). Mr. Trilok Chand Agrawal is another director of MSPL and has more than 47 years of experience in manufacturing industry, banking sector, insurance sector and trading business. He is Director of NIC Asia Bank Limited. The promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of MSPL.

***Comfortable operational and financial profile characterized by growth in sales, however with reduced PBILDT and PAT***

The capacity utilization of MSPL was moderate at 60% in FY19 which however reduced from 66% in FY18. MSPL's total revenue increased by ~21% during FY19 to Rs. 5,744 Mn majorly due to increase in sales quantity on account of higher demand in products like Black Pipes and Structures coupled with increase in average price realization of the products of the company. This was further supported by increase in trading sales of products such as channel, welding rod which are not manufactured by the company. The company faced decline in the PBILDT margin to 10.10% during FY19 compared to PBILDT margin of 12.23% during FY18. PBILDT margin of the company impacted in FY19 majorly on account of increase in cost of raw material and increase in trading sales having lower margins. PAT of the company declined by ~11% with reduced PAT margin of 5.11% during FY19 on back of increase in interest expense.

***Liquidity profile supported by liquid investments in listed shares***

MSPL had an investment portfolio of ~Rs. 102 Mn at the end of FY19 with most of the investments in shares of different listed banks and financial institutions. The investments are readily marketable in nature and lends liquidity cushion to the company. As on March 1, 2020, MSPL had liquid investment of Rs. 150 Mn based on the market prices of securities traded on Nepal Stock Exchange Limited (NEPSE).

***Diverse product range catering to wide spectrum of industries and established marketing setup***

MSPL has been manufacturing iron & steel products in wide range having different usages. They are manufacturing mild steel (MS) black pipes & galvanized (GI) pipes and their variants. Tubular pole, telescopic pole, structure, shutter profile etc. are the major products that MSPL are selling in the market along with selling galvanized plain sheets (GP Sheet), hot rolled coil (HRC) sheet and cold rolled coil (CRC) sheet by cutting it in different sizes. MSPL sell its product all over Nepal and the sales are majorly through direct marketing to existing as well as new customers. Most of the sales revenue comes through direct domestic sales, followed by tender based sales and a minimal sale is through export to India.

***Demand of steels products in the country***

Nepalese economy is developing and growing and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Further, followed by devastating earthquake of April 2015, Government commitment towards infrastructure and rebuilding the housing sector has increased demand of iron and steel products in Nepal. As a result of increased development works, demand for iron and steel is expected to grow by 10% annually.

**Key Rating Weakness*****Leverage capital structure and deterioration in debt service coverage indicators of the company***

Debt-Equity ratio of the company has been low at 0.20x at the end of FY19 which improved from 0.31x at the end of FY18 upon repayment of term loan coupled with accretion of the profit to the net worth. Overall gearing ratio of the company deteriorated to 3.28x at the end of FY19 due to increased debt levels as a result of high utilization of working capital limits. MSPL's interest coverage ratio was moderate at 3.42x in FY19 which declined from 8.56x in FY18 on back of spike in the interest expenses on account of high utilization of working capital loans. Total debt/ GCA of the company deteriorated to 9.89x during FY19 from 5.23x during FY18.

***Working capital intensive nature of operations***

The operations of the company are working capital intensive in nature. MSPL is involved in manufacturing wide range of steel products by majorly importing raw materials which are procured through Letter of Credit. Also, the company has to fund the inventory and debtors in line with the industry trend which lead to high reliance on working capital limits. MSPL's average debtors' turnover days was 90 days and the average inventory turnover was 85 days during FY19. Total operating cycle of the company was 168 days in FY19 which increased from 123 days in FY18. This leads to high reliance of the company on the bank finance for working capital needs. The average utilisation of working capital limits against drawing power was around 97% during last 12 months period ended mid-January, 2020.

***Raw material price volatility risk and foreign exchange fluctuation risk***

H.R. Coils, C.R. Coils, GP Coils, Zinc Ingots etc. are the major raw materials for MSPL and are majorly imported from India. The prices of the MSPL's raw materials 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 contributed around 81% 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 the raw material requirements are met through imports and the price of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. The ability of the company to pass through of changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

***Exposure to volatile interest rates***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

***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 iron & steel products is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Furthermore, the value addition in the steel products like M.S. black, galvanized pipes & related products is low, resulting into low product differentiation in the market. Further, with increase in the capacities of the existing plants and new capacities coming into operation competition has intensified which has resulted into substantial decline in profitability margins of the industry players in the current year. 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.

**About the Company**

Mainawati Steel Industries Private Limited (MSPL) is a private limited company incorporated on May 17, 1995 for setting up of M.S. Black & Galvanized pipe plant in Sunsari district of Nepal. The company is operating from more than 2 decades and manufacturing wide range of steel products with total installed plant capacity of 90,450 metric tons per annum. MSPL primarily manufactures MS black pipes, galvanized pipes, tubes and its variants. All the shares have been held by individual promoter group shareholders.

Brief financial performance of MSPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY17 (A)	FY18 (A)	FY19 (A)
Income from Operations	2,700	4,766	5,744
PBILDT	298	583	580
PAT	170	328	294
Overall Gearing (times)	1.83	2.80	3.28
Interest coverage (times)	6.52	8.56	3.42

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**Annexure 1: Details of the Facilities rated**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. In Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Term Loan	226.61	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Limit	4,948.11	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limit	442.70	CARE-NP A3
<b>Total</b>		<b>5,617.42</b>	