

**Rating Rationale**  
**Kamala Rolling Mills Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	2,526.02	CARE-NP A3 [A Three]	Reaffirmed with removal of rating from credit watch with negative implications
<b>Total facilities</b>	<b>2,526.02</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of ‘CARE-NP A3’ assigned to the short-term bank facilities of Kamala Rolling Mills Private Limited (KMPL). The ratings have been removed from credit watch with negative implications considering comfortable financial profile of the company and its ability to withstand the implications of ongoing Covid-19 without impacting the debt servicing capability of the company.

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of KMPL continue to derive strength from moderate capital structure of the company followed by improvement in debt service coverage indicators at the end of FY20 (Audited, refers to 12 months period ended mid-July 2020) coupled with improvement in PBILDT and PBILDT margin in FY20 however with decline in operational performance and revenue of the company due to impact of COVID-19 pandemic. The ratings also factor in established and long track record of operations along with experienced directors in the related field, established brand with country wide market presence, diverse product range catering to wide spectrum of industries and demand of steels products in the country. The ratings are however constrained by raw material price volatility 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 KMPL to manage growth in the operations, maintaining the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

***Impact of COVID-19 on the operations and financials of the company***

With the outbreak of Coronavirus disease 2019 (COVID-19) recognised as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. During the lockdown period, sales of the company has been directly impacted in FY20. However, with government easing restriction for various activities recently, operations, revenue and profitability of the company is also expected to improve in FY21. With various construction activities taking pace, demand of steel products is also likely to improve during current year.

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

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Strengths**

#### ***Moderate capital structure followed by improvement in debt service coverage indicators at the end of FY20***

The company repaid all its long-term loans during FY20 as a result of which debt equity ratio was Nil at the end of FY20. Total gearing ratio of the company was moderate at 1.24x at the end of FY19 which has marginally improved to 1.23x at the end of FY20 due to increase in networth upon accretion of profit to reserve & surplus. KMPL has moderate interest coverage ratio of 2.49x and high Total debt/ Gross Cash Accruals of 25.25x in FY20.

#### ***Established and long track record of operations along with experienced directors in the related field***

KMPL has an operational track record of more than two decades in manufacturing TMT Bars, Galvanized Iron/Hard Bright (GI/HB) wires and allied steel products. KMPL derives strength from its promoter group belonging to Vishal Group, which is one of the major business groups in Nepal and has been involved in diversified business of trading, banking, insurance and manufacturing. The company is managed under the overall guidance of its two-member board of directors who possess wide experience in various industries and trading business. Mr. Jagdish Prasad Agrawal, Director and Chairman of KMPL is engaged in industry, import, export, banking and commerce/business sector for more than 5 decades.

#### ***Established brand with country wide market presence***

The company sells TMT bars under the brand name of “Kamala Gold TMT Steel Bars” which is an established brand in the Nepal market on account of its long-standing presence in the construction industry. This provides leverage to the company in front of new players entering the industry.

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

The company is into manufacturing of various types of wires such as GI wires, HB wires and other products such as TMT Bars, Flats, and Section which are produced in various variants. These GI wires have various household, industrial and engineering applications. Products such as TMT Bars, Barbed wire, Torkari, Flat, Section are used for various construction and engineering projects. KMPL sells its product all over Nepal and the sales are through direct marketing to existing as well as new customers.

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

Nepalese economy is developing and growing and is in phase of investment in infrastructure, power sector and tourism sector. In the budget presented by finance minister of Nepal for FY21, government has allocated Rs. 55 Bn for reconstruction with major focus towards development of health sectors, tourism sectors and other infrastructure development. However, with economic activities affected by COVID-19 pandemic, demand for steel may be subdued in short term, but with government focus on infrastructure, demand is likely to grow in long run. Government’s high emphasis on infrastructure development and power sector in the budget for FY20-21 is likely to benefit the steel manufacturers like KMPL.

***Key Rating Weaknesses******Decline in operational performance and revenue during FY20, however with increased PBILDT and PBILDT margin***

The capacity utilization of KMPL was moderate at 44.57% in FY19 which has reduced to 32.74% in FY20. Manufacturing operations as well as revenue of KMPL has been impacted by lockdown imposed by the GoN resulting into decline in total revenue by ~13% in FY20. Despite decline in total revenue of the company, PBILDT and PBILDT margin of the company improved majorly on account of company earning from higher decline in raw material cost compared to decline in sales price realization leading to better margins. However, PAT of the company declined in FY20 majorly due to increase in depreciation cost followed by company incurring foreign exchange loss. KMPL has already achieved sales of Rs. 1,184 Mn during six-months period FY21.

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

The major raw materials for KMPL are imported from India and the prices 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 76% of the total operating income of the company during FY20, thus, any volatility in prices of the same impacts the profitability of the company. With prices of raw material imported linked to USD, the company is exposed to the foreign exchange fluctuation risk. However, same is also mitigated to some extent as the company has also practice of forward booking and hedging. KMPL incurred foreign exchange fluctuation loss of Rs. 27 Mn during FY20. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

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

The operations of the company are working capital intensive in nature and hence is majorly availing short-term loan facilities from the banks. KMPL primarily imports its raw materials through Letter of Credit. The company also has to fund inventory and debtors which lead to high reliance on working capital limits. KMPL generally allows two-three months credit period to its customers. Total operating cycle of the company was 182 days in FY20 which increased from 160 days in FY19 leading to high reliance of the company on the bank finance for working capital needs. The average utilisation of fund-based working capital limit against drawing power was around 77.56% during last 12 months period ended mid-August, 2020.

***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. 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 TMT bars and 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 completion has intensifies which has resulted into substantial decline in profitability margins of the industry players in FY20.

### About the Company

Kamala Rolling Mills Private Limited (KMPL) is a private limited company incorporated on December 2, 1991 for manufacturing TMT Bars, Flat, Sections, Galvanized Iron/Hard Bright (GI/HB) Wires, Shutter Spring, Barbed Wire, etc., having plant in Biratnagar, Morang, Nepal. The company is promoted by different individuals belonging to the Vishal group of companies. Currently, the total installed capacity of the plant is 80,000 Metric Tons Per Annum (MTPA) out of which the capacity for Rolling Mills is 60,000 MTPA and Wire Section is 20,000 MTPA.

Brief financial performance during the last 3 years ending FY20 is as follows:

(Rs. In Million)

For the year ended Mid July	FY18 (A)	FY19 (A)	FY20 (A)
Income from Operations	3,041	2,579	2,253
PBILDT Margin (%)	10.37	3.67	4.61
Overall Gearing (times)	1.34	1.24	1.23
Interest coverage (times)	6.65	1.58	2.49
Current Ratio (times)	1.40	1.39	1.39

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### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Working Capital Loan	1,120.00	CARE-NP A3
Short Term Bank Facilities	Letter of Credit	1,396.02	CARE-NP A3
Short Term Bank Facilities	Bank Guarantee	10.00	CARE-NP A3
<b>Total</b>		<b>2,526.02</b>	