

## M.S. Hightech Steel Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	135.00 (Decreased from Rs. 335.00 Mn)	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	665.00 (Increased from Rs. 465.00 Mn)	CARE-NP A4 [A Four]	Reaffirmed
Total Bank Facilities	800.00 (Eight hundred million only)		

*\*Detail of Facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' for the long term bank facilities and 'CARE-NP A4' for the short term bank facilities of M.S. Hightech Steel Private Limited (MSH).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MSH continue to remain constrained by fluctuating revenue profile and low profitability in last 3 financial years ending in FY21 (Audited, FY refers to 12 months' period ended mid-July 2021). The ratings continue to be constrained by eroded net worth followed by leveraged capital structure and weak debt service coverage indicators at the end of FY21, elongated operating cycle with high reliance on bank finance for funding operations, presence in highly fragmented and competitive nature of steel industry and exposure to raw material price volatility risk and volatile interest rate.

The ratings, however, continue to drive strength from experienced promoters in the related field, locational advantage and increasing demand of steel products in the country.

*Going forward, the ability of the company to profitably scale up the operations and rationalize its debt levels while effectively managing its working capital requirement to support growth will be key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Fluctuating revenues profile and low profitability in last 3 financial years ended in FY21

During the last three years, the total operating income of the company has fluctuated year-on-year i.e. Rs. 628 Mn in FY19, Rs. 467 Mn in FY20 and Rs. 715 Mn in FY21. The growth of ~53% in TOI in FY21 is mainly attributable to the increased in manufacturing operations of the company to garner the increased in demand of steel products in the country after normalization of Covid-19 restrictions and revival of economic activities in the country as compared to FY20. This has led to increase in quantities sold of products during FY21.

With increase in TOI, PBILDT margin has also improved and stood at 8.24% in FY21 as against operating losses in FY20. The improvement also attributable to economies of scale and commencement of operations of the backward integration plant leading to high value addition. The company has setup ingot manufacturing plant in at the end of FY20. Also, in FY21, the company has received the dedicated industrial power line, which reduced the electricity consumption cost leading to cost saving during FY21. Despite of improvement in TOI and PBILDT, the company reported marginal net profit of Rs. 1 Mn and GCA of Rs. 8 Mn due to significant finance expenses amounting to Rs. 52 Mn in FY21.

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

**Eroded net worth followed by leveraged capital structure and weak debt service coverage indicators at the end of FY21**

The financial risk profile of the company has been weak marked by negative net worth existing in the books of the company up to FY21. Net worth of the company was negative due to continuous loss incurred by the company leading to erosion of net worth base. The business has been continuously supported by the promoters by infusing the equity share capital into the company and in last 3 FYs (FY19-FY21) total infusion was around Rs. 70 Mn.

Also, MSH had weak debt service coverage indicators marked by interest coverage ratio of 1.14x and total debt to GCA of 76.31x at the end of FY21.

**Elongated operating cycle with high reliance on bank finance for funding**

The operations of the company are working capital intensive in nature marked by operating cycle of 102 days. The operating cycle remained high on account of higher average receivable and inventory days which stood at 73 days and 82 days respectively for FY21. The inventory days remained high majorly mainly due to the nature of the business to maintain inventory of different sizes considering the wide range of its steels products (Angle, Channel and Flat Square) along with moderate raw material levels on account of high lead time and. Furthermore, MSH has to make advance payment to local stockiest and imports from India financed through LC at sight, leading to pressure on cash flows which are met through higher utilization of working capital limits. The current ratio and quick ratio of the company remained consistently below unity during last three years ending in FY21. Also, the average utilization of fund-based working capital limit against drawing power was around above ~90% during last 12 months for period ending in mid-December 2021.

**Presence in highly competitive nature of steel industry**

The iron and steel industry is intensely competitive 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-use industry. Furthermore, the value addition in the steel products TMT bars and related products is low, resulting into low product differentiation in the market. Also, with increase in the capacities of the existing plants and new capacities commencing operations the profitability of players in the industry is likely to be impacted.

**Exposure to Raw material price volatility risk and volatile interest rate**

The major raw materials for GSPL include scrap irons and iron sponges. The company purchases scrap irons from local stockiest whereas the iron sponges 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 normally contributed ~80-85% of the total cost of production, thus, any volatility in prices of the same impacts the profitability of the company.

Also, considering its leveraged debt structured operation and low profitability, any volatility in the interest rates quoted by the banks, will have direct bearing on its profitability margin and debt servicing ability.

**Key Rating Strength****Experienced promoters**

The promoters of MSH have an experience of more than a decade in various industries. MHPL is managed under the overall guidance of its five members Board of Directors which includes experienced businessmen/industrialist with wide experience in the manufacturing sector. Mr. Mahesh Bhattarai is the Chairman of MSH and has 25 years of experience in various types of business and industries. He is also director in Broadband Nepal Private Limited and Jagadamba Cold Store and Seeds Production Private Limited.

### Locational advantage

The plant site is located in Nawalparasi district of Nepal, which is adjacent to Nepal-India Border which makes the location of the plant near to the Indian border and provides SSIPL an advantage of supply of raw material at lower transportation cost.

### About the Company

M.S. Hightech Steel Private Limited (MSH) is a private limited company established in 2014 and located in Ramgram, Nawalparasi district of Nepal. The company manufactures Angle, Channel, Flat and Square steel products with total installed capacity of 27,000 MTPA for these products. The company has also achieved the backward integration of its plant for production of ingot having installed capacity of 27,000 MTPA on Dec 31, 2022.

### Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, A)
Total Operating Income	628	467	715
PBILDT Margin (%)	7.52	-ve	8.24
Overall Gearing Ratio (times)	-ve	-ve	-ve
Interest Coverage (times)	1.05	-ve	1.14
Current Ratio (times)	0.68	0.56	0.69
Total Debt/ Gross Cash Accruals (times)	96.94	-ve	76.31

A: Audited; UA: Unaudited

### Annexure-1: Details of the Facilities Rated

(Rs. in Million)

Name of the Bank Facilities	Type of the Facilities	Amount	Ratings
Long Term Bank Facilities	Term Loan	135.00	Reaffirmed
Short Term Bank Facilities	Fund Based Limits	400.00	Reaffirmed
Short Term Bank Facilities- (Proposed)	Fund Based Limits	265.00	Reaffirmed
<b>Total Facilities</b>		<b>800.00</b>	

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