

## Saakha Steel Industries Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities- Term Loan	<b>480.38</b> (Increased from Rs. 299.32 Mn)	<b>CARE-NP B</b> [Single B]	<b>Revised from</b> <b>CARE-NP B+</b>
Short Term Bank Facilities- Working Capital Loan	<b>1,150.00</b> (Decreased from Rs. 1,300 Mn)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed</b>
Short Term Bank Facilities- Non-Funded Based Limits	<b>268.94</b> (Decreased from Rs. 300 Mn)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>1,899.32</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating to 'CARE-NP B' to the long term bank facilities and reaffirmed 'CARE-NP A4' to the short term bank facilities of Saakha Steel Industries Private Limited (SSIPL).

### Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to bank facilities of SSIPL factors in continuous losses and negative cash accruals in the last 3 financial years ending in FY21 (Unaudited, FY refers to 12 months' period ended mid-July 2021). The ratings continue to be constrained by highly leveraged capital structure along with stressed debt service coverage indicators of the company and working capital intensive nature of operations. The ratings also took note of company's presence in highly competitive nature of steel industry, raw material price volatility risk and foreign exchange fluctuation risk.

The ratings, however, continue to drive strength from experienced promoters in the related field and its association with established business group and locational advantage.

*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

#### Weakening of financial risk profile marked by continuous losses in last 3 financial years ended in FY21

The total operating income of the company has been continuously declining on y-o-y basis in the previous 3 financial years ended in FY20. TOI has shown an increase of around 19% in FY21 over previous year and TOI stood at Rs. 866 Mn in FY21. The growth was primarily on account of increase in sales from TMT bars and increase in average sales realization of the same product. Though the company has shown growth in FY21, still it has not managed to reinstate the operations levels of FY18. Consequently, the company reported net losses in the past 3 FY's (FY19-FY21) which is mainly attributed to high interest expenses. All this has led to negative cash accruals from operations which led to weakening of financial risk profile of the company. During FY21, PBIDLT margin of the company stood at 4.45%.

On account of high interest expenses and losses at operating levels, the company has stressed debt coverage indicators as reflected from below unity interest coverage ratio and negative total debt to GCA.

#### Highly leveraged capital structure

The capital structure of the company is highly leveraged marked with overall gearing ratio of 9.38x at the end of FY21 compared to 6.77x at the end of FY20 on account of higher utilization of working capital borrowings coupled with decline in

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

tangible net-worth contributed by continuous loss suffered by the company. Furthermore, Total debt which mainly comprise of term loan and working capital increased by Rs. 106 Mn to Rs. 1,583 Mn 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 390 days. The operating cycle remained high on account of higher average receivable and inventory days which stood at 190 days and 257 days as on FY21. The inventory days remained high majorly mainly due to the nature of the business to maintain inventory of different sizes which is further affected by SSPL dealing in slow moving projects requiring higher inventory level. Further, SSIPL majorly imports its raw materials from India which is financed through LC at sight leading to pressure on cash flows which are met through higher utilization of working capital limits. The average utilization of fund-based working capital limit against drawing power was around above 90% during last 12 months for period ending on mid-July, 2021.

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

The major raw materials for SSIPL 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 ~85% of the total operating income of the company during FY21, thus, any volatility in prices of the same impacts the profitability of the company. With prices of raw material import linked to USD, the company is exposed to the foreign exchange fluctuation risk. 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.

#### **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.

#### **Key Rating Strength**

##### **Established business group and experienced promoter in the related field**

SSIPL is part of the Saakha Group which is one of the established business group in Nepal. The group is promoted by Mr. Ganesh B. Saakha, who is the Chairman of the group and founder promoter of Saakha group and has wide experience across different sectors. The Group was involved in manufacturing adhesive, noodles and garments in the past. Group is also involved in manufacturing dyes and wall paints for over three decades. Mr. Bishwa Prakash Saakha, Managing Director, manages day to day operations of the company and has more than 20 years of experience in manufacturing of paints, chemicals, non-ferrous metals. Senior management team members have wide work experience in the related field.

##### **Locational advantage**

The plant site is located within ~20 Kms from Birgunj dry port in Nepal-India Border which makes the location of the plant near to the Indian border and large Indian State Bihar and provides SSIPL an advantage of supply of raw material at lower transportation cost.

#### **About the Company**

Saakha Steel Industries Private Limited (SSIPL) is a private limited company established in 1997 in Simara, Bara district of Nepal. The company manufactures TMT Steel Bars of different sizes under the brand name "Saakha TMT". In addition to production line of TMT bars, SSIPL also produces variety of steel wires and rods. The installed capacity of SSIPL is 72,000 metric tons per annum for TMT plant.

## Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Total Operating Income	1,067	728	866
PBILDT Margin (%)	7.80	(2.48)	4.45
Overall Gearing Ratio (times)	18.99	6.77	9.38
Interest Coverage (times)	0.92	(0.19)	0.45
Current Ratio (times)	0.87	0.73	0.80
Total Debt/ Gross Cash Accruals (times)	-ve	-ve	-ve

A: Audited; UA: Unaudited

## Annexure-1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facilities	Amount (Rs. in Mn)	Ratings
Long Term Bank Facilities	Term Loan	480.38	Revised from CARE-NP B+ to CARE-NP B
Short Term Bank Facilities	Fund Based Limits	1,150.00	Reaffirmed
Short Term Bank Facilities	Non-Fund Based Limits	268.94	Reaffirmed
<b>Total</b>		<b>1,899.32</b>	

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