

Shree Krishna Steel Industries Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	49.90	CARE-NP BB+ [Double B Plus]	Revised from CARE-NP BB
Short Term Bank Facilities	1,390.00	CARE-NP A4+ [A Four Plus]	Revised from CARE-NP A4
Total	1,439.90 (Reduced from Rs. 1,706.75)		

**Details of instruments/facilities in Annexure-I*

CARE Ratings Nepal Limited has revised the rating to 'CARE-NP BB+' for the long term bank facilities and to 'CARE-NP A4+' for the short term bank facilities of Shree Krishna Steel Industries Private Limited (SSPL).

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of SSPL factors in the overall improvement in financial risk profile of the company in FY21 (Audited, refers to 12 month's period ended mid-July 2021). The ratings, also derive strength from experienced promoters and management in the related field, locational advantage of the manufacturing facilities, established marketing setup and demand of steel products in the country.

The ratings, however, continue to be constrained by leveraged capital structure, working capital intensive nature of operations and presence in highly competitive nature of steel industry in Nepal. The ratings also factor in raw material price volatility and foreign exchange fluctuation risk and exposure to volatile interest rates.

Going forward, the ability of the company to profitability scale up its operations and rationalization of its debt level by managing the working capital requirements while supporting the growth in operations will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure though improved at the end of FY21

The company has leveraged capital structure primarily on account of high working capital requirement of the company and decline in the net worth due to net losses incurred in the past. Overall gearing ratio of the company continued to remain high at 3.87x at the end of FY21; though improved from 13.02x over previous balance sheet date. The improvement in capital structure was primarily on account of lower utilization of working capital loans and accretion of profits to reserves. Total Debt/ GCA continued to remain moderate at 6.15x in FY21.

Improvement in operating cycle of the company, however high reliance on working capital loan

Total operating cycle of the company improved from 211 days for FY20 to 161 days for FY21 primarily on account of reduction in average collection period from 126 days in FY20 to 58 days in FY21. The reduction in collection period was on account of management focus towards cash sales. Inventory holding period of the company continued to remain high at 3 months as being a manufacturer, SSPL is required to maintain adequate inventory of material on account of lead time for purchases and to ensure regular supply of HR/CR Coils and HR Strip for uninterrupted manufacturing operations. The company imports its raw material mainly from India backed by normally sight letter of credit leading to low average payable period. All this

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

leads to high reliance of the company on the bank finance for working capital requirements. The average monthly outstanding of fund-based working capital limit against drawing power was around 96% during last 18 months period ended mid-January 2022.

Exposure to raw material price volatility risk and foreign exchange fluctuation risk

The major raw materials for SSPL are majorly imported from India, the prices of which are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices having a bearing on its profitability margins. The raw material consumption cost along with trading purchases contributed around 89% of the total operating income of the company during FY21, thus, any volatility in prices of the same impacts the profitability of the company. Also, the company is exposed to foreign exchange fluctuation risk as the prices of imported raw materials are linked to USD. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of highly fragmented and competitive nature of the industry, which could lead to decline in profitability margins.

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 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 HR pipes, strips & related products is low, resulting into low product differentiation in the market. 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 Strengths

Strong presence of the promoter group in steel sector supported by experienced management team

SSPL has an operational track record of more than two decades in manufacturing of Pipes and Sheets. The promoters of the company have wide experience in manufacturing steel and other construction materials for more than three decades. SSPL is part of the Keyal group of companies of Nepal which is a diversified business group with strong presence in a broad range of business, manufacturing and industrial interests with main focus on manufacturing construction materials. The group presence is reflected from hardware outlets spreading across the country which contributes to the group's steel business. The company is managed under the overall guidance of its ten members Board of Directors (BoD) which includes experienced businessmen/industrialist from the Keyal group with wide experience in the manufacturing sector. Mr. Satya Narayan Keyal, Chairman of NSPL and also the chairman of the Keyal group of companies has more than 30 years of experience in trading and manufacturing industry. Mr. Bikash Kumar Keyal, Director, has been involved in the groups business for the past 16 years and looks after the whole group's accounting and finance.

Locational advantage with established brand and marketing network

The plant site is located in Chhatapipra, Simara, around 15 Kms from Indo-Nepal borders in Birgunj dry-port. Since majority of raw materials used by SSPL are imported from India, the factory's proximity to the border remains a positive point leading to savings in huge freight cost.

The company sells pipes, sheets and other allied products under the brand name of "Narayani Steels" which is already an established brand in the Nepal market on account of its long-standing presence in the construction materials manufacturing and trading industry. This provides leverage to the company in front of new players entering the industry. The group also has 15 in-house hardware trading outlets in and around the Kathmandu Valley along with a well-established dealer/distributor network in around 129 areas across the country which provides a ready market for its products.

Overall improvement in the profitability during FY21 though decline in total operating income

Total revenue of the company declined marginally by ~4.25% in FY21 to Rs. 1,611 Mn from Rs. 1,683 Mn. Despite decline in total revenue, PBILDT margin improved substantially to 9.71% in FY21 from 1.57% in FY20. PBILDT in absolute terms grew to Rs. 156 Mn in FY21 from Rs. 26 Mn in FY20. Increase in average sales realization by 20% to Rs. 82,285 Mn in FY21 coupled with change in product mix and inventory gains resulted in improvement in PBILDT margin. Increase in PBILDT supported company to have net profit of Rs.74 Mn in FY21 as against net loss in FY20. Also due to lower average utilization of working capital loans in FY21, interest expense reduced from Rs. 106 Mn in FY20 to Rs. 33 Mn in FY21. With company incurring profit during FY21 as compared to net loss in FY20, GCA of the company improved to Rs. 109 Mn in FY21 from negative GCA during FY20.

Diverse product range catering to wide spectrum of industries

SSPL is into manufacturing Hot Rolled (HR) and Cold Rolled (CR) pipes, and their variants along with shutter patti, Chequer plate etc. Company is also involved in selling hot rolled coil (HRC) sheet and cold rolled coil (CRC) sheet by cutting it in different sizes. These products have various household, official and engineering applications. SSPL sells its product all over Nepal and the sales are through direct marketing to existing as well as new customers. Most of the sales revenue comes through direct domestic sales through its trading houses.

About the Company

Shree Krishna Steel Industries Private Limited (SSPL) is a private limited company incorporated on February 28, 1995 for manufacturing Pipes, Sheets, Shutter Patti, having plant in Chhatapipra, Bara, Nepal and is in operation for more than two decades. SSPL is part of the Keyal group of companies of Nepal and all the shares of the company are held by individual promoters from Keyal group.

Brief financials of SSPL during last 3 years is given below:

For the year ended Mid-July	FY19	FY20	FY21
	(Audited)		
Income from Operations	3,161	1,683	1,612
PBILDT Margin (%)	3.94	1.57	9.71
Overall Gearing (times)	7.17	14.59	3.87
Interest Coverage (times)	1.20	0.25	4.72
Current Ratio (times)	1.00	0.88	0.91
Total Debt/Gross Cash Accruals (times)	70.79	(11.69)	6.15

Annexure 1: Details of the facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	49.90	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	50.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	1,340.00	CARE-NP A4+
Total		1,439.90	

Contact us**Analyst**

Ms. Elisha Lamichhane
Contact No.: 977-01-4012628
Email: elisha.lamichhane@careratingsnepal.com

Senior Analyst

Mr. Santosh Pudasaini
Contact No.: +977 9802312855
Email: santosh.pudasaini@careratingsnepal.com

Relationship Contact

Name: Achin Nirwani
Contact No.: +977 9818832909
Email: achin.nirwani@careratingsnepal.com

About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.