

## Malika Steels Private Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	256.00	CARE-NP B+ [B Plus]	Assigned
Short Term Bank Facilities	744.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>1,000.00</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Malika Steels Private Limited (MSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MSPL are constrained by residual project implementation and stabilization risk, 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 competitive nature of wire industry.

The ratings, however, derive strength from experienced individual promoters with institutional backing, multiple product offerings catering to wide range of end user industries, demand of steel products in the country, and locational advantage for raw materials and scope of export.

*Going forward, the ability of the company to commission the project within budgeted cost and expected timelines and early stabilization of its manufacturing facilities to achieve the envisaged scale of business and rationalization of its debt would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Residual project implementation and stabilization risk

MSPL began the construction of its manufacturing facility in May, 2021 and had achieved around 75% financial progress till April 26, 2022. The company is expected to commence its commercial operations by July 2022, resulting in risks associated with the residual project implementation within estimated cost and time. Furthermore, post project implementation risk in the form of stabilization of the manufacturing facilities to achieve the envisaged scale of business and saleability risk associated with the products in the light of competitive nature of industry remains crucial for MSPL and will remain critical from credit perspective.

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

Mild Steel wire rod will be the major raw material for MSPL, 90% of which is expected to be 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 will have a bearing on its profitability margins. Thus, any volatility in prices of the same will impact the profitability of the company. Furthermore, majority of the total raw material requirement is likely to be met through imports and the prices of the same will be linked to USD, for which the company will be exposed to the foreign

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

exchange fluctuation risk. The ability of the company to pass on the changes in raw material prices to the finished products while managing the foreign exchange fluctuation risks related to raw materials will be critical for company's profitability.

**Working capital intensive nature of operations**

Manufacturing steel products such as wires and other allied products is a working capital intensive business as the company will be required to maintain the requisite inventory owing to a large product portfolio coupled with the long lead time for importing raw materials from India. The company is expected to maintain inventory of raw materials for at least three months for smooth running of its operations, which is expected to result in an elongated operating cycle leading to increased dependence on working capital borrowings.

**Exposure to volatile interest rates**

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate.

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

The steel wire industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. The value addition in the wires and related products is relatively low, resulting in low product differentiation in the market and low entry barriers to the industry. The demand for wires and allied products is also considered cyclical as it depends on the capital expenditure plan of major players in the end-user industry. Furthermore, with increase in the capacities of the existing plants and new capacities coming into operation, competition has intensified which could put added pressure on the profitability margins.

**Key Rating Strengths****Experienced individual promoters with institutional backing**

MSPL is promoted by six individual promoters with substantial experience in the related business, and three institutional promoters involved in allied business. Mr. Tikaram Jaishi, Chairman, has an experience of more than 20 years in the steel hardware industry. He is also the chairman in AK Traders and Hardware Private Limited (trading of construction hardware equipment's), Malika Incorporate (parent company holding allied group companies), Roshni International Agro Private Limited (trading of steel hardware), Malika Taar Jali Steel Udhog Private Limited (manufacturing of steel hardware) and Shree Malika Devi Investment Company Private Limited (real estate and stock market investment), with the latter three also being the institutional promoters of MSPL.

**Locational advantage for raw materials and multiple products offerings**

MSPL's manufacturing facility is located at Tikapur, Kailali which is around 20 Km from Satti Customs Office, Kailali. Since majority of raw materials used by MSPL are imported through India, the factory's proximity to the Indian border provides a competitive advantage in terms of savings in freight cost. In addition, upon favorable market conditions, the company could also explore exporting its products to India in the future.

The company plans to manufacture steel products of wide range with varied usages. Based on the current production facility, the company's product portfolio will include GI wires, nails, torkari and gabion boxes, which will be produced in different variants which find applications in diversified industries. MSPL plans to sell majority of its products to its allied companies and remaining via dealers/traders in western region of Nepal.

### Demand of steel products in the country

Nepalese economy is developing and growing and is in phase of investment in infrastructure, power sector and tourism sector, notwithstanding the impact of the covid-19 pandemic. In the budget presented by the finance minister of Nepal for FY22, the government has allocated Rs. 34 Bn towards post-earthquake reconstruction, Rs. 41 Bn towards urban development, and Rs. 163 Bn for physical infrastructure and transport. Government's continued high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures is likely to benefit the wires and allied product manufacturers like MSPL over the medium term.

### About the Company

Malika Steels Private Limited (MSPL) is a private limited company incorporated on April 27, 2021 for manufacturing steel wires and allied products in Tikapur, Kailali, Nepal. The company is setting up manufacturing facilities to manufacture products like GI wires, Nails, Torkari and Gabion Boxes, with total production capacities of 14,400 Metric Tons Per Annum (MTPA). The company is expected to commence full-fledged operations from July 2022.

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	256.00	CARE-NP B+
Short Term Bank Facilities	Fund Based Limit	500.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	150.30	CARE-NP A4
Short Term Bank Facilities	Proposed	93.70	CARE-NP A4
<b>Total</b>		<b>1,000.00</b>	

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