

## Kamala Rolling Mills Private Limited (Revised)

### Ratings

Facility	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	2,526.02	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	2,526.02 [Two Billion Five Hundred Twenty-six Million and Twenty Thousand only]		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A3' assigned to the short term bank facilities of Kamala Rolling Mills Private Limited (KMPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of KMPL continues to derive strengths from its established track record of operations along with experienced promoters and management team in the related field, low gearing levels with moderate debt service coverage indicators, established brand presence, diverse product range catering to wide spectrum of industries and stable demand outlook for steel products in the country over the medium-term.

The ratings are however constrained by raw material price volatility and foreign exchange fluctuation risk, elongated working capital cycle, exposure to volatile interest rates and presence in highly competitive nature of iron and steel industry.

*Going forward, the ability of the company to profitably scale up its operations while efficiently managing working capital requirements and maintaining gearing levels would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Strengths

#### Established 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, having presence in diversified sectors including trading, banking, insurance and manufacturing among others. 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, Chairman, is an industry veteran and has been associated in the business of imports, export, banking and finance sector etc for more than five decades. Mr. Nikunj Agrawal, Managing Director, supervises the operations of automobile distribution/ dealership in the Group and has an experience of more than a decade through his association with various companies.

#### Established brand and marketing setup and diverse product offerings

The company sells TMT bars under the brand name of "Kamala Gold" which is an established brand in the country on account of its long-standing presence. This provides competitive advantage to the company against new players entering the industry. 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 sections which are produced in different variants. 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.

**Moderate financial risk profile**

Total operating income (TOI) of the company declined marginally by ~2% in FY22 (Unaudited, FY refers to the twelve-month period ending mid-July) to Rs. 2,710 Mn on account of decline in quantity sold amid sluggish demand owing to slower than expected pace of economic growth in the country. Furthermore, sales were also impacted in FY22 as the company was not able to adequately markup selling price corresponding to the substantial upward costing pressures amid higher input prices. Consequently, PBILDT declined by ~22% in FY22 due to diseconomies of scale coupled with relatively high input prices. The quantity sold decreased by ~15% in FY22 over FY21 and average sales realization was Rs. 100,836 per metric ton in FY22 as against Rs. 86,145 per metric ton in FY21. KMPL booked net profit of Rs. 125 Mn in FY22 with PAT margin of 4.61% which declined from Rs. 166 Mn in FY21 with PAT margin of 6.01%. KMPL has achieved sales of Rs. 546 Mn during first three- months of operations in FY23.

The capital structure of the company remained moderate as on mid-July, 2022 marked by overall gearing ratio of 0.76x which however improved from 1.38x as on previous balance sheet date. However, adjusted overall gearing (net of cash balances) improved to 0.06x at the end of FY22 from 0.33x at the end of FY21. Similarly, total debt/ GCA improved to 5.09x in FY22 from 6.41x in FY21 due to decline in working capital loans upon lower level of operations. The company's interest coverage remained adequate at 3.81x in FY22. Despite certain operating challenges and industry headwinds in FY22, the company's capital structure continues to remain fairly resilient with sufficient gearing headroom.

**Demand of steels products in the country**

Nepalese economy is developing, and is in the phase of investment and growth in infrastructure, power sector and tourism sector, notwithstanding the lingering impact of the covid-19 pandemic. In the budget presented by finance minister of Nepal for FY23, Rs. 161.56 Bn has been allocated for infrastructure development along with an estimated GDP growth of 8.00%. Government's continued high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures augurs well for the business prospects of iron and steel manufacturers like KMPL over the medium term.

**Key Rating Weaknesses****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 85-90% of the total operating income of the company during FY22, thus any volatility in prices of the same impacts the profitability of the company. With prices of raw materials imported linked to USD, the company is exposed to the foreign exchange fluctuation risk. Although the risk is mitigated to some extent as the company has a practice of forward booking and hedging of partial foreign currency exposures, KMPL incurred foreign exchange fluctuation loss of Rs. 26 Mn during FY22 (FY21: Rs. 13 Mn). The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks is critical to maintain its profitability.

**Elongated working capital cycle of the company amid comfortable liquidity**

The operations of the company are working capital intensive in nature as majority of its raw materials are in the form of imports which are backed by letter of credits. The company is also required to maintain adequate inventory for smooth operations of its manufacturing process and extend credit to its debtors which lead to high reliance on working capital limits. KMPL generally allows two-months credit period to its customers. The operating cycle of the company was high at 115 days. Though the operating cycle of the company is elongated, however, liquidity is adequate as reflected from the moderate

average utilization of fund-based working capital borrowings against drawing power which was around 74% during last 12 month period ended mid-August, 2022.

Furthermore, liquidity position of the company is characterized by a comfortable current ratio, which stood over 1.77x as at the end of FY22 and 1.41x as at end of FY21. Moreover, the company had unencumbered cash and bank balances of around Rs 33 Mn and fixed deposits of Rs 700 Mn as at the end of FY22.

### 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-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. Also, with increase in the capacities of the existing plants and new capacities commencing operations are likely to impact the profitability of players in the industry.

### 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., and has its manufacturing facility in Biratnagar, Morang, Nepal. The total installed capacity of the plant is 80,000 Metric Tons Per Annum (MTPA) (Rolling Mills is 60,000 MTPA and Wire Section is 20,000 MTPA) as on mid-July 2021.

(Rs. Million)

For the year ended Mid-July	FY20	FY21	FY22
	(Audited)	(Audited)	(Unaudited)
Income from Operations	2,253	2,762	2,710
PBILDT Margin (%)	4.61	9.48	7.52
Overall Gearing (times)*	0.92	0.33	0.06
Interest Coverage (times)	2.49	15.28	3.81
Current Ratio (times)	1.39	1.41	1.77
Total Debt/Gross Cash Accruals (times)	25.25	6.41	5.09

\*KMPL had policy to invest in short term fixed deposits which are later used to pay off working capital loans mainly being TR loans once they mature. Considering the policy of company to invest in short term fixed deposits and paying off the loan amount only on maturity, CRNL has been calculating adjusted gearing ratio by netting off working capital loans with such balances in banks at the year end.

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Short Term Bank Facilities	Fund Based Limit	1,120.00	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limits	1,406.02	CARE-NP A3
<b>Total</b>		<b>2,526.02</b>	

**Contact us****Analyst Contact**

Ms. Poonam Agarwal

Contact No.: +977-01-4012628

Email: poonamagarwal@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977-01-4012629

Email: pudasaini.santosh@careratingsnepal.com

**Relationship Contact**

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

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