

## Mainawati Steel Industries Private Limited (Revised)

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities – Term Loan	154.32 (Decreased from Rs. 314.10 Mn)	<b>CARE-NP BBB- [Triple B Minus]</b>	Reaffirmed
Short Term Bank Facilities – Fund Based Limits	5,108.68 (Increased from Rs. 4,860.16 Mn)	<b>CARE-NP A3 [A Three]</b>	Reaffirmed
Short Term Bank Facilities – Non fund Based Limits	367.00 (Decreased from Rs 442.70 Mn)	<b>CARE-NP A3 [A Three]</b>	Reaffirmed
Short Term Bank Facilities- Fund Based Facilities	395.00	<b>CARE-NP A3 [A Three]</b>	Assigned
Short Term Bank Facilities- Non fund Based Facilities	200.00	<b>CARE-NP A3 [A Three]</b>	Assigned
<b>Total Facilities</b>	<b>6,225.00 (Increased from Rs. 5,616.96 Mn)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of 'CARE-NP BBB-' assigned to the long-term bank facilities and 'CARE-NP A3' assigned to the short-term bank facilities of Mainawati Steel Industries Private Limited (MSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MSPL continue to derive strength from established and long track record of operations along with strong promoters and experienced management team in the related field, moderate profitability margins, capital structure and debt service coverage indicators of the company. The ratings also factor in diverse product range catering to wide spectrum of industries with established marketing setup and demand of steels products in the country. The ratings also took cognizance of decline in total operating income in FY21 (Audited, FY refers to 12 months' period ended mid-July). The rating strengths are partially offset by elongated operating cycle, raw material price volatility risk and foreign exchange fluctuation risk, exposure to volatile interest rates and presence in highly competitive nature of steel industry.

*The ability of MSPL to scale up its operations while maintaining the profitability margins and managing the foreign exchange and raw material price fluctuation risks will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### ***Established and long track record of operations along with strong Promoters and experienced management team in the related field***

MSPL has an operational track record of more than two decades in manufacturing of MS black pipes, galvanized pipes, tubes and pipes. MSPL derives strength from its strong promoters and being a part of the Vishal Group of Companies, which have a strong presence in Nepal through their group entities in trade, manufacturing, hospitality, insurance and banking. MSPL is managed under the overall guidance of its two-member Board of Directors (BoD) which includes eminent businessmen / industrialists with wide experience in the manufacturing sectors. Mr. Trilok Chand Agrawal is Chairman of MSPL who has around overall 5 decades of experience in diversified industries which includes manufacturing industry, banking and finance sector and trading business. He is also director of NIC Asia Bank Limited (rated CARE NP A). Mr. Tulsi Ram Agrawal is the

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

other director of MSPL, and has more than 45 years of experience in manufacturing industry, banking sector, insurance sector and trading business. He is the Chairman of NIC Asia Bank Limited. The promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of MSPL.

#### ***Diverse product range and established marketing setup***

MSPL has been manufacturing iron & steel products in wide range with varied usages. They are manufacturing mild steel (MS) black pipes & galvanized (GI) pipes and their variants. Tubular pole, telescopic pole, structure, shutter profile etc. are the major products that MSPL are selling in the market along with galvanized plain sheets (GP Sheet), hot rolled coil (HRC) sheet and cold rolled coil (CRC) sheet by cutting it in different sizes. MSPL sell its products all over Nepal and the sales are majorly through direct marketing to existing as well as new customers. Most of the sales revenue comes through direct domestic sales followed by tender based sales. The company also exports few of its products to India.

#### ***Moderate financial risk profile***

PBILDT margin of the company improved from 13.32% in FY20 to 15.08% in FY21 on account of change in product mix and inventory gains. The company has large product portfolio having varied margins and during FY21, company derived higher revenue from higher margin products which led to increase in operating margins of the company. Furthermore, PAT of the company also improved significantly in FY21 majorly due to increase in PBIDLT coupled with decline in interest expenses by 61% to Rs 63 Mn. MSPL generated Gross Cash Accruals (GCA) of Rs. 513 Mn in FY21 which improved from Rs. 266 Mn in FY20 due to significant improvement in PAT.

Debt-Equity ratio of the company has been satisfactory at 0.17x at the end of FY21 which improved from 0.26x at the end of FY20 attributed to scheduled repayment of term loans in FY21. Overall gearing ratio of the company was moderate at 1.27x at the end of FY21 which also improved from 1.94x over previous balance sheet date due to lower utilization of working capital borrowings at the end of FY21 followed by increase in net worth base on back of accretion of the profit to the net worth. MSPL had comfortable interest coverage ratio of 11.22x and Total debt/ Gross Cash Accruals improved to 4.06x at the end of FY21 from 8.69x in FY20. The average utilization of fund-based working capital limit against drawing power was around 68% during last 12 months' period ended mid-July, 2021.

#### ***Demand of steels products in the country***

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. In the budget presented by finance minister of Nepal for FY22, government has allocated Rs. 34 Bn towards post-earthquake reconstruction, Rs. 41 Bn towards urban development, Rs. 163 Bn for physical infrastructure and transport. However, with economic activities affected by COVID-19 pandemic, demand for steel may be subdued in short term, but with government focus on infrastructure, demand is likely to grow in long run. Government's high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures is likely to benefit the company.

#### ***Key Rating Weaknesses***

##### ***Subdued performance in FY21 leading to decline in total operating income***

For the period FY19-FY21, MSPL's total operating income declined on year on year basis from Rs. 5,744 Mn to Rs. 4,717 Mn. The ongoing pandemic and resultant lockdowns have impacted demand factor thereby impacting manufacturing operations as well as revenue of the company. Further, management's decision to shift its focus from high volume products to high margin products, has impacted the TOI of the company during FY21. During FY21, quantity sold of all the products of MSPL declined except for GI pipe, Shutter Profile, CR & PPGI Sheet which together contributed ~23% of total revenue (~11% in FY20). MSPL was able to maintain moderate utilization of 53% during FY20 which has however reduced to 37% during FY21. During three months' period FY22, the company has achieved sales of Rs. 1,017 Mn.

##### ***Elongated operating cycle***

The operations of the company are working capital intensive in nature marked by high working capital cycle of 216 days in FY21. MSPL is involved in manufacturing wide range of steel products by majorly importing raw materials through Letter of

Credit. Being a highly competitive business, the company has to extend credit period of around three months. The company is required to maintain adequate inventory of raw material for smooth running of its production processes. Furthermore, being a manufacturer, it is critical for the company to maintain minimum inventory levels to meet immediate demand of its customers; all this led to high working capital requirements.

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

The major raw materials for MSPL are majorly 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 consumption cost contributed around 70% of the total operating income of the company. The general volatility in the iron and steel prices also has an impact on the price of the final products. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of competitive nature of the industry, which could lead to decline in profitability margins.

Furthermore, the total raw material requirement is met through imports and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. However, same is mitigated to some extent as the company has practice of hedging foreign exchange exposure. 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 is critical for the company to maintain its profitability.

**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 like M.S. Black, galvanized pipes & related products is low, resulting into low product differentiation in the market. Further, with increase in the capacities of the existing plants and new capacities coming into operation competition has intensified which has resulted into substantial decline in profitability margins of the industry players.

**About the Company**

Mainawati Steel Industries Private Limited (MSPL) is a private limited company incorporated on May 17, 1995 for setting up of M.S. Black & Galvanized pipe plant in Sunsari district of Nepal. The company is into manufacturing wide range of steel products which primarily include MS black pipes, galvanized pipes, tubes and its variants. As on mid-July 2021, the total installed plant capacity of the plant is 111,900 Metric Tons Per Annum (MTPA).

Brief financial performance of MSPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21(A)
Income from Operations	5,744	5,245	4,717
PBILDT Margin (%)	10.10	13.32	15.08
Overall Gearing (times)	3.28	1.94	1.27
Interest coverage (times)	3.42	4.32	11.22
Current Ratio(times)	1.16	1.32	1.58
Total Debt/Gross Cash Accruals(times)	9.89	8.69	4.06

A: Audited

**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	154.32	CARE-NP BBB-
Short Term Bank Facilities	Working Capital Limit	5,503.68	CARE-NP A3
Short Term Bank Facilities	Non-Fund Based Limit	567.00	CARE-NP A3
<b>Total</b>		<b>6,225.00</b>	

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**About CARE Ratings:**

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Disclosure: Shareholders of Mainawati Steel Industries Private Limited are also amongst the shareholders of CARE Ratings Nepal Limited (CRNL). None of the shareholders of CRNL (Including shareholders of Mainawati Steel Industries Private Limited) are part of CRNL's rating committee and they do not participate in the rating process. And hence, they didn't have any role in assignment of credit rating of Mainawati Steel Industries Private Limited by CRNL.