

Shree Krishna Steel Industries Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	24.80 (Decreased from 49.90)	CARE-NP BB [Double B]	Revised from CARE-NP BB+
Short Term Bank Facilities	1,390.00	CARE-NP A4 [A Four]	Revised from CARE-NP A4+
Total Facilities	1,414.80 (One Billion Four Hundred Fourteen Million and Eight Hundred Thousand Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the ratings 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 takes into account overall deterioration in the financial performance of the company during FY22 (Audited, FY refers to the twelve-month period ended mid-July) coupled with challenging operational environment leading to prospect of further moderation during FY23. The ratings, 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.

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.

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 supporting the growth in operations will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Deteriorated financial performance of the company during FY22 characterized by decline in sales and PBILDT

Total revenue of the company declined by 17.81% in FY22 to Rs. 1,325 Mn from Rs. 1,612 Mn in FY21. With decline in total revenue, PBILDT of the company also declined by 45.17% in FY22 to Rs 86 Mn, with deterioration in PBILDT margin to 6.48% from 9.71% in FY21. Increase in average sales realization by 27.56% to Rs. 104,960 Mn in FY22 was offset raw material consumption cost resulting in deterioration in PBILDT margin. With deterioration in PBILDT, the company incurred net profit of Rs. 10 Mn in FY22 from Rs. 74 Mn during FY21. With decline in working capital loans and term loan at the end of FY22 to Rs. 27 Mn and Rs. 613 Mn respectively as compared to Rs. 51 Mn and Rs. 616 Mn at the end of FY21, interest expense increased from Rs. 33 Mn in FY21 to Rs. 48 Mn in FY22 due to increase in interest rates.

Leveraged capital structure

Overall gearing ratio of the company continued to remain high at 3.47x at the end of FY22; though improved from 3.87x 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 of the company deteriorated to 21.85x in FY22 from 6.15x in FY21.

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

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 92% of the total operating income of the company during FY22, 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 in Nepal

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.

Exposure to volatile interest rate

The company has substantial interest outgo lined up over the next couple of years amid relatively high debt levels. The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Sustained high interest rates, as seen over the last year or so, add to the interest burden of the company, squeezing its profitability and impacting its liquidity position. However, Nepal Bankers Association's decision to lower premium on loans by 1% from March 2023 could provide some relief. Nevertheless, funding taken by the company remains exposed to volatile interest rate.

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.

Improvement in operating cycle, however high reliance on bank finance for funding the requirement

Total operating cycle of the company was 140 days in FY22 decreased from 161 days in FY21 mainly due to decrease in the average collection and inventory days. Average debtor collection period of the company was at 48 days in FY22

decreased from 58 days in FY21 majorly due to shift of the company towards cash sales minimizing their credit sales post lockdown. Average inventory turnover was 96 days in FY22 which decreased from 105 days in FY21. Further, credit period allowed to the company during FY21 and FY22 was at 3 days. The company imports its raw material mainly from India and mainly backed by sight letter of credit leading to low average payable period. All this leads to high reliance of the company on the bank finance for working capital requirements. The average utilisation of fund-based working capital limit against sanctioned limit was around 93% during the last 12 months period mid-November, 2022.

Locational advantage with established brand and marketing network

The plant site is located in Jeetpur, Bara, 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.

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 Jeetpur, 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:

Financial Performance

(Rs. Million)			
For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,683	1,612	1,325
PBILDT Margin (%)	1.57	9.71	6.48
Overall Gearing (times)	13.02	3.87	3.47
Total Outstanding Liabilities/Tangible Net worth (times)	13.17	3.98	3.54
Interest Coverage (times)	0.25	4.72	1.77
Current Ratio (times)	0.88	0.91	0.83
Total Debt/Gross Cash Accruals (times)	-11.70	6.15	21.85

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	24.80	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	1,390.00	CARE-NP A4 [A Four]
Total		1,414.80	

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About CARE Ratings Nepal Limited:

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