

Shree Krishna Steel Industries Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	161.45	CARE-NP B+ [B Plus]	Revised from CARE-NP BB
Short Term Bank Facilities	1,253.35	CARE-NP A4 [A Four]	Reaffirmed
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 B Plus ' for the long-term bank facilities and reaffirmed 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 declining trend in the financial performance of the company during FY23 (Audited, FY refers to the twelve-month period ending mid-July) coupled with challenging operational environment leading to prospect of further moderation during FY24. The ratings continue to be constrained by leveraged capital structure and weak debt coverage indicators of the company, 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, however, 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 profitably scale up its operations and rationalization of its debt level by managing the working capital requirements will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Declining financial performance of the company during FY23

SSPL's total operating income declined by 34.72% y-o-y to Rs. 863 Mn in FY23 from Rs. 1,322 Mn in FY22 mainly owing to muted demand. More concerningly, the company's PBILDT margin declined sharply amid higher cost of raw materials which the company could not adequately pass on. Consequently, SSPL reported PBILDT levels losses in FY23. With deterioration in PBILDT, the company incurred net loss of Rs. 61 Mn in FY23 (FY22: Rs. 10 Mn). Amid challenging operating environment, the company's income levels and profitability is likely to remain subdued in FY24 as well with sequential improvement expected as demand recovers over the medium-term.

Leveraged capital structure

Overall gearing ratio of the company increased at 4.78x at the end of FY23 from 3.47x at the end of FY22 due deterioration in net worth amid net losses along with increment in term loan. SSPL's interest coverage ratio in FY23 was negative which deteriorated from 1.65x in FY22 due to low PBILDT. Similarly, other debt coverage indicators and debt protection metrics stood weak amid negative gross cash accruals. The company's ability to improve cash accruals leading to improved debt coverage indicators will remain critical from credit perspective.

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

Elongated operating cycle

Total operating cycle of the company was 157 days in FY23, increasing from 140 days in FY22 mainly due to increase in the average collection and inventory days. Average collection period was 72 days in FY23 which increased from 48 days in FY22 amid slower debtor realization in a challenging market scenario. Average inventory turnover was 109 days in FY23 which increased from 96 days in FY22. Elongated operating cycle led to higher reliance on borrowings to meet working capital need of the company, reflective also in its increased interest outgo in FY23.

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 93% of the total operating income of the company during FY23, 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 are 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 monthly base rate and interest rate is changed accordingly. 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.

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 31 years of

experience in trading and manufacturing industry. Mr. Bikash Kumar Keyal, Director, has been involved in the groups business for the past 17 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 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 Total Operating Income 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.

Financial Performance

(Rs. Million)

For the Period	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	1,612	1,325	863
PBILDT Margin (%)	9.71	6.02	Negative
Overall Gearing (times)	3.87	3.47	4.78
Total Outstanding Liabilities/Tangible Net worth (times)	3.98	3.54	5.82
Interest Coverage (times)	4.72	1.65	Negative
Current Ratio (times)	0.91	0.83	0.90
Total Debt/Gross Cash Accruals (times)	6.15	21.85	Negative

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	161.45	CARE-NP B+ [B Plus]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	1,253.35	CARE-NP A4 [A Four]
Total		1,414.80	

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