

**Rating Rationale**  
**Siddhivinayak Steels Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	331.65	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	1500.00	CARE-NP A4 [A Four]	Assigned
<b>Total facilities</b>	<b>1,831.65</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB-’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Siddhivinayak Steels Private Limited (SSPL).

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of SSPL are constrained by negative implications of COVID-19 on the operations and financials of the company leading to weak financial profile marked by low profitability margins and cash loss during FY20 (Provisional, refers to 12 months period ended mid-July 2020) and highly leveraged capital structure with weak debt service coverage indicators of the company at the end of FY20. The ratings also factor in 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 fragmented and competitive nature of steel industry in Nepal. The ratings however, derive strength from experienced promoters and management in the related field, locational advantage of the manufacturing plant, diverse product range catering to wide spectrum of industries with established marketing setup and demand of steel products in the country.

The ability of SSPL to manage growth in the operations & improve the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities. The ability of the company to pass through changes in raw material prices to the customers and manage the foreign exchange fluctuation risks related to raw materials would be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

*Negative implications of COVID-19 on the operations and financials of the company*

With the outbreak of Coronavirus disease 2019 (COVID-19) recognised as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. Till mid-March 2020, company achieved total sales of Rs. 733 Mn, however, during the 2 months lockdown period from mid-March to mid-May 2020, sales of SSPL slowed down to Rs. 54 Mn which has directly

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

impacted the revenue of the company for the year. The expected economic slowdown in the construction sector due to the ongoing pandemic and the resulting impact on demand of products in iron and steel sector is likely to keep the near-term revenue growth subdued. The company's ability to achieve sales and profitability as envisaged and maintain its debt coverage indicators would remain critical.

***Weak financial profile marked by low profitability margins leading to cash loss during FY20 (Prov)***

Financial risk profile of the company in FY20 is characterised by increasing scale of operations and revenue as it is the first full year of operation, however, impacted by lockdown imposed by the GoN due to Covid-19 pandemic. During FY20, the company operated at an overall low capacity of ~23% and generated revenue of Rs. 944 Mn. PBILDT of the company increased to Rs. 60 Mn with margin of 6.31% in FY20 from Rs. 2 Mn with PBILDT margin of 5.45% in FY19. PBILDT increased due to higher revenue generated on account of increased operations. The company incurred loss of Rs. 46 Mn in FY20 with negative gross cash accruals despite positive PBILDT due to substantial interest expenses and depreciation. Also during FY20, the company had foreign exchange loss of Rs. 26 Mn impacting the margins of the company.

***Highly leveraged capital structure and weak debt service coverage indicators at the end of FY20***

Debt-Equity ratio of the company was at 1.92x at the end of FY19 which deteriorated to 2.03x at the end of FY20 due to increase in term loan to fund the capital expenditure. Also, during FY20, net-worth of the company increased to Rs. 157 Mn from Rs. 114 Mn due to fresh infusion of equity of Rs. 89 Mn which however, was partially offset by losses incurred during the year. Total gearing ratio deteriorated and was high at 7.46x at the end of FY20 on account of high working capital loans. Interest coverage ratio of the company was low at 1.04x in FY19 which further deteriorated to 1x in FY20. Total debt/ GCA for FY20 was negative on account of negative gross cash accruals.

***Working capital intensive nature of operations***

The operations of the company are working capital intensive in nature as the operations are dependent upon imported raw materials. The company has to fund inventory and debtors which leads to high reliance on working capital limits. SSPL's average debtors turnover days was high at 110 days during FY20 on account of high credit sales made by the company. However, all sales made by the company are secured. The average inventory turnover was high at 237 days for FY20 due to subdued sales on account of economic slowdown caused by covid-19 and huge raw material inventory remaining with the company at the year end. Total operating cycle of the company was high at 342 days in FY20 due to the operations of company being impacted by covid-19 and FY20 being the first full year of operation. This leads to high reliance of the company on the bank finance for working capital needs. The average utilisation of working capital limit against drawing power was high and in most months 100% of the drawing power.

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

The major raw materials are imported from India and the price of the 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 has a bearing on its profitability margins. The raw material cost contributes around 90% of the total operating cost of the company, thus, any volatility in prices of the same impacts the profitability of the company. Further, the majority of its raw material requirements is imported, prices of which is linked to USD, for which it is exposed to the foreign exchange fluctuation risk. To prevent the impact of foreign exchange fluctuation on profitability, SSPL does forward contract for all forex transactions on regular basis. The ability of the company to pass through changes in raw material prices to the customers and manage the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

***Presence in highly fragmented and competitive nature of steel industry in Nepal***

The iron and steel industry is intensely competitive and fragmented 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 in FY20.

**Key Rating Strengths*****Experienced promoters and management in the related field***

SSPL is being promoted by the family members related to the Goenka Group, which is in existence for 30 years and is one of the business groups in Nepal with diversified business involved in both manufacturing and trading. The Company is spearheaded by Mr. Ram Gopal Goenka as Chairman who is responsible for the overall management of the company. Mr. Goenka has work experience of more than 35 years in the field of construction industry, financial sector and trading business. Mr. Amit Kumar Goenka, Director is responsible for managing the technical and human resource aspect.

***Locational advantage***

The plant is located in Parasi, Nepal and is the major factory in the western belt of Nepal to produce MS-Pipe/MS-Plates. The plant site is connected to Mahindra Highway and is strategically located in terms of raw material procurement. The required raw materials are majorly imported from India and the suppliers deliver the raw materials till Nautanwa railway Siding, Uttar Pradesh, India which is ~ 27 kms from Bhairhawa and Parasi, thereby leading to cost efficient procurement of raw materials and logistics management. Also, the plant location is central point to the potential markets of Nepal with no other major MS-Pipe manufacturing unit nearby and is also well connected by road network.

***Diverse product range catering to wide spectrum of industries and established marketing setup***

SSPL is into manufacturing MS Pipe that has great usage in construction, automobile and manufacturing industries. Further, SSPL is also engaged in selling Hot Rolled Coil and Cold Rolled Coil by cutting it in different sizes. Cut to length MS-Plates and products are substantially used in hydropower projects, irrigation projects, factories expansion, renovation etc. Further, with an established marketing network and dealer network covering most of Nepal, majority of sales of the company is made through dealers.

***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 of Nepal for FY21, government has allocated Rs. 55 Bn for reconstruction and Rs. 36 Bn for construction of various transmission line and substations. However, with economic activities affected by COVID-19 pandemic, demand for steel may be subdued in short term. Government's high emphasis on infrastructure development and power sector in the budget for FY20-21 is likely to benefit the flat products manufacturers like SSPL.

***About the Company***

Siddhivinayak Steels Private Limited (SSPL) is a private limited company which was incorporated on February 07, 2018 for setting up a Mild Steel (MS)- Black Pipes and cut to length products manufacturing facility of 73,000 Metric Tons Per Annum (MTPA) capacity in Nawalparasi, Nepal. Commercial Operation Date (COD) for capacity of 55,000 MTPA was achieved on June 09, 2019 and for 18,000 MTPA on April 2020. The company is also setting up a galvanization unit which is expected to be operational from March 2021.

***Brief Financial Performance during the last 2 years is as follows:***

*(Rs. In Million)*

For the year ended Mid July	FY19 (Audited)	FY20 (Provisional)
Income from Operations	30	944
PBILDT	2	60
PAT	(9)	(46)
Overall Gearing (times)	3.21	7.46
Interest coverage (times)	1.04	1.00

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**Annexure 1: Details of the Facilities Rated**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Term Loan	331.65	<b>CARE-NP BB-</b>
Short Term Bank Facilities	Working Capital Loan	70.00	<b>CARE-NP A4</b>
Short Term Bank Facilities	Non-fund based limits	1,430.00	<b>CARE-NP A4</b>
<b>Total</b>		<b>1,831.65</b>	