June 2021

Rating Rationale

Jagdamba Enterprises Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating[1]	Rating Action
Long Term Bank Facilities	277.96 (Decreased from Rs. 374.15 Mn)	**CARE-NP BB+ [Double B Plus]**	Reaffirmed
Short Term Bank Facilities	15,016.00	**CARE-NP A4+ [A Four Plus]**	Reaffirmed
Total facilities	**15,293.96**		

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB+' assigned to the long term bank facilities and 'CARE-NP A4+' assigned to the short term bank facilities of Jagdamba Enterprises Private Limited (JEPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JEPL continue to be constrained by subdued financial performance in FY20 (refers to 12 months period ended mid-July 2020) marked by decline in sales, leveraged capital structure and weak debt service coverage indicators of the company and raw material price volatility risk along with foreign exchange fluctuation risk. The ratings also factor in working capital intensive nature of operations, exposure to volatile interest rates and presence in highly fragmented and competitive nature of steel industry. The ratings also took cognizance of improvement in financial risk profile during H1FY21 (Unaudited, refers to 6 months period ended mid-January, 2021).

The ratings however, derives strength from long track record of operations of the company with experienced management team in the related field and growth in profitability and gross cash accruals in FY20. The ratings also factor in established brand and marketing setup with country wide market presence and large scale of operations of the company, diverse product range catering to wide spectrum of industries and demand of steels products in the country.

Ability of JEPL to manage growth in the operations & improve the profitability margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities. 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.

[1]*Complete definitions of the ratings assigned are available at www.careratingsnepal.com*

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile

At the end of FY20, total debt of the company comprises of Term loan of Rs. 355 Mn and working capital loan of Rs. 7,236 Mn. Overall gearing ratio of the company stood at 4.10x at the end of FY20 which however improved from 4.79x over previous balance sheet date due to lower utilization of working capital loans at the end of FY20. Though improved, the overall gearing continued to remain high. Furthermore, on account of high debt levels, JEPL had low interest coverage ratio of 1.34x in FY20 and Total debt/ GCA continued to be high at 45.65x in FY20.

JEPL's total revenue declined by 24% in FY20 to Rs. 14,981 Mn as compared to growth of 18% in FY19. Sales has been impacted on account of decline in quantity sold of TMT bars and MS Black Pipes during FY20 coupled with decline in realization in all the products. Despite decline in TOI, PBILDT margin improved to 4.35% in FY20 from 3.91% in FY19 on account of better management of foreign exchange fluctuations which led to decline in losses and rationalization of other expenses. Decline in average utilization of working capital borrowings led to reduction in finance expenses and supported company to improve its PAT margin and gross cash accruals.

Current year performance in H1FY21: During 6 months period ended FY21, company has achieved sales of Rs. 6,472 Mn with improvement in PBILDT margin to 10.49% due to increase in average sales realization and economies of scale. The new fully automated machinery supported company to reduce wastages and improved efficiency helped company to improve it margins in current financial year. Also, overall gearing improved to 2.81x at the end of H1FY21 with interest coverage ratio of 5.06x.

Raw material price volatility risk and foreign exchange fluctuation risk

The major raw materials for JEPL 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 which has a bearing on its profitability margins. The raw material cost contributed around 87% of the total operating income of the company during FY20, 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. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities

Working Capital Intensive Nature of Operations

The company has working capital intensive nature of operations as reflected by low current ratio of 1.14x as at the end of FY20. The company has exceptionally high average operating days of 206 days in FY20 on account of lockdown imposed in the last financial year due to which company had high levels of debtors and inventory in the year end. Being a highly competitive business, the company has to extend credit period to its dealers which is normally upto 90 days whereas company has to make immediate payment to its suppliers. The company is required to maintain adequate inventory of raw material for smooth running of its production processes. Furthermore, being a manufacturer, it is crucial for the company to maintain minimum inventory levels to meet immediate demand of its customers; all this led to high working capital requirements. The high working capital requirements were met largely through bank borrowings which resulted in an average utilization of approximately 74% of its working capital limits for the last 12 months period ended mid April 2021.

Presence in highly fragmented and competitive nature of steel industry

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 like M.S. black, galvanized pipes, TMT & related products is low, resulting into low product differentiation in the market.

Key Rating Strengths

Established and long track record of operations with experienced management team in the related field

JEPL has an operational track record of around two decades in manufacturing of MS black pipes, galvanized pipes, tubular poles and other allied steel products. JEPL is promoted by industrialists and traders of Nepal, who are involved in manufacturing of cement, trading of construction materials and hospitality business. The company is managed under the overall guidance of its three member Board of Directors (BoD) which includes eminent businessmen/industrialists with wide experience in the manufacturing sectors. The day to day operations of the company is looked after by Mr. Anil Kumar Rungta and Mr. Vishal Patwari, Director, who have an experience of two decades in the steel industry and handle marketing, purchase of material and production planning of the company.

Established brand with country wide market presence

JEPL has successfully established “Jagdamba” and “Jag Shakti” as a brand name in different type of iron and steel products in the domestic market. Established brand image ensures customer loyalty and aid in the differentiation of products with the competitors. Additionally, the company markets and sells its entire range of products through a well-established network. JEPL has a strong dealer base across all major cities in the country which provides a ready market for its products.

Diverse product range catering to wide spectrum of industries

JEPL manufactures variety of steel products of different sizes which includes TMT bars, MS Black Pipes, Galvanized Iron pipes, Hot Rolled Strips, **shutter profiles, shutter Guide, Shutter Spring and Lock Plate** which finds application in varied industries including construction, automobile, chemical and oil industries etc. The wide application not only diffuses the risk of dependency on a single industry but also allows the company to cater to a larger market with a broad customer base.

Demand of steels products in the country

Nepalese economy is developing and growing and is in phase of investment in infrastructure, power sector and tourism sector. In the budget presented by finance minister of Nepal for FY21, government has allocated Rs. 55 Bn for reconstruction with major focus towards development of health sectors, tourism sectors and other infrastructure development. 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 and power sector in the budget for FY20-21 is likely to benefit the steel manufacturers like JEPL.

Locational advantage

The plant site is located in Parsa, around 15 Kms from Indo-Nepal borders and Birgunj dry-port. Since majority of raw materials used by JEPL are imported from India, the factory's proximity to the border remains a positive point leading to saving in freight cost.

About the Company

Jagdamba Enterprises Private Limited (JEPL) is a private limited company which was incorporated on March 29, 2001 for setting up M.S. Black & Galvanized pipe manufacturing plant in Jeetpur, Parsa district of Nepal. The company is operating from more than 15 years, manufacturing wide range of steel products with total installed plant capacity of 357,960 Metric Tons Per Annum (MTPA) as on July 2020.

Brief Financial Performance during the last 3 years is as follows:

(Rs. In Million)

For the year ended Mid July	FY18	FY19	FY20	H1FY21
		Audited		*Unaudited*
Income from Operations	16,708	19,661	14,981	6,402
PBILDT Margin (%)	12.08	3.91	4.35	10.49
Overall Gearing (times)	3.60	4.79	4.10	2.81
Interest coverage (times)	6.06	1.09	1.34	5.06
Current Ratio (times)	1.20	1.13	1.14	1.21
Total Debt/Gross Cash Accruals (times)	5.71	59.39	45.65	14.66

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	277.96	**CARE-NP BB+**
Short Term Bank Facilities	Working Capital Loan	3,475.00	**CARE-NP A4+**
Short Term Bank Facilities (Proposed)	Working Capital Loan	96.00	**CARE-NP A4+**
Short Term Bank Facilities	Non-fund based limits	11,445.00	**CARE-NP A4+**
Total		**15,293.96**	