

## Real Steels Private Limited

### Ratings

Instruments/ Facilities	Amount (Rs. in Million)	Rating <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	415.10 (Increased from 390.00)	CARE-NP BB- [Double B Minus]	Revised from CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	1,070.00 (Increased from 550.00)	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Bank Facilities</b>	<b>1,485.10</b> <b>(Increased from 940.00)</b>		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has revised the ratings of 'CARE-NP BB-' to the long-term bank facilities and reaffirmed the rating of 'CARE-NP A4' to the short-term bank facilities of Real Steels Private Limited (RSPL).

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of RSPL takes into account stabilization and gradually scaling up of the operations. The ratings also derive strength from experienced promoters and management in the related field, demand of steels products in the country, locational advantage and product diversification.

The ratings, however, continue to be constrained by short track record of operation, highly leveraged capital structure and modest debt service coverage indicators of the company. The ratings are further constrained by raw material price volatility risk, working capital intensive nature of operations, exposure to volatile interest rates and presence in highly competitive nature of steel industry.

*Going forward, the ability of the company to profitability scale up its operations and managing the working capital requirements while limiting its borrowings will be the key rating sensitivities.*

### Detailed Rationale & Key Rating Drivers

#### Key Rating Weakness

#### ***Highly leveraged capital structure and modest debt service coverage indicators at the end of FY21***

RSPL has leveraged capital structure as reflected by overall gearing ratio of 3.85x at the end of FY21. Furthermore, Debt-equity ratio of the company also stood high at 1.02x at the end of FY21 which improved from 2.03x at the end of FY20. The DE ratio of company improved on account of increase in the tangible net worth of company due to accretion of net profit coupled with equity capital infusion of Rs. 46.49 Mn in FY21. Interest coverage ratio and total debt/ GCA stood at 3.05x and 9.94x respectively at the end of FY21 and shown improvement over previous year. Due to operating losses in FY20, the debt service coverage indicators stood stressed for the company.

#### ***Elongated operating cycle with working capital intensive nature of operations and stressed liquidity position***

RSPL is involved in manufacturing wide range of steel products by majorly importing raw materials. RSPL purchases its raw materials through Letter of Credit and also has to fund the inventory and debtors which lead to high reliance on working capital limits. Total operating cycle of the company was 121 days in FY21 with average collection period from customers of 40 days and average inventory holding period of 92 days in FY21. This leads to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limit against

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

drawing power was around ~80-85% during last 12 months' period ending mid-July, 2021 and low current ratio as on the last two balance sheet dates reflects working capital intensive nature of operations.

***Exposure to raw material price volatility risk***

Hot rolled (HR)/ Cold rolled (CR) Coils are the major raw materials for RSPL and are majorly imported from India. The prices of RSPL's raw materials are market linked and determined on a periodic basis, thus exposing the company to volatility in the prices of raw materials which has a bearing on its profitability margins. The raw material cost contributes around 80% of the total operating income of the company. Thus, any volatility in prices of the same impacts the profitability of the company. The ability of the company to pass through changes in raw material prices to the customers will be the key rating sensitivity.

***Presence in highly 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 MS pipes, shutter patti, shutter guide, construction material etc. 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***

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be changed by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

**Key Rating Strengths**

***Experienced promoters and management in the related field***

RSPL is promoted by traders and businessmen from Birgunj City of Nepal. RSPL is managed under the overall guidance of the Company's Board of Directors (BoD) who possesses wide experience in the industry. Mr. Prem Kumar Jatiya is the Chairman and Managing Director of the company. Mr. Jatiya, has been involved in different business for more than 20 years. Mr. Dipal Khanna, Executive Director, is Chartered Accountant by qualification and is also engaged in the trading of TMT bars, MS Pipes and other hardware items.

***Stabilization of operations of the company***

The company has been able to gradually scale up its operations in FY21 which is the first full year of operation. RSPL's capacity utilization has remained modest at ~30% during FY21; however, showing an improvement over FY20. The improvement in capacity utilization is mainly attributable to the increased demands for steel products after normalization of the Nepalese economy which was severely impacted by the first wave of Covid-19 during FY20. Attributed to same, the company's total revenue stood at Rs. 1,158 Mn with PBILDT margin of 11.73% during FY21 (UA). Also, the company recorded the net profit of Rs. 56 Mn and gross cash accrual of Rs. 91 Mn in FY21.

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### Product diversification

RSPL manufactures MS Pipe that has great usage in construction, automobile, chemical and oil industries including residential housing, shed construction. The company also offer its customers shutter profiles along with cutting Hot Rolled Coil (HRC) and Cold Rolled Coil (CRC) in different sizes. Diversification allows for more variety and options for the customers and consequently provides a tremendous boost to product marketing. Also, being in close proximity with the Indian border, RSPL has potential for export sales in adjacent Indian states.

### 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 FY22, government has allocated Rs. 34 Bn towards post-earthquake reconstruction. Government has allocated Rs. 41.20 Bn for urban development and Rs. 163 Bn physical infrastructure and transport development. As a result of increased development works, boom in the construction of houses and commercial buildings, various roads and bridges, hydropower projects demand for iron and steel products is expected to grow. This indicates a growing demand for steel products in Nepal and is likely to benefit the steel manufacturers like RSPL.

### About the Company

Real Steels Private Limited (RSPL) is a private limited company and was incorporated in March 2018. The manufacturing is located at Birgunj, Nepal and the company started its commercial operation since January, 2020. The company manufactures MS Pipes, Shutter Patti, Shutter Guide and other related products with total annual production capacity of 46,800 MT for MS Pipes Shutter Patti, Shutter Guide and Hot Rolled (HR) Coil/ Sheet and Cold Rolled (CR) Coil/ Sheet per year.

### Financial Performance

For the Period Ended / as at Mid-July,	(Rs. in Million)	
	2020 (6m, A)	2021 (12m, UA)
Total Operating Income	43	1,158
PBILDT Margin (%)	(33.43)	11.73
Overall Gearing Ratio (times)	3.67	3.85
Interest Coverage (times)	-ve	3.05
Current Ratio (times)	0.82	0.97
Total Debt/ Gross Cash Accruals (times)	-ve	9.94

A: Audited; UA: Unaudited

### Annexure 1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings assigned
Long Term Bank Facilities	Term Loan	415.10	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limits	1,070.00	CARE-NP A4
<b>Total</b>		<b>1,485.10</b>	

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### About CARE Ratings Nepal Limited:

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