

Kamala Rolling Mills Private Limited

Ratings

Instrument / Facilities	Amount (Rs. In Million)	Rating ^[1]	Rating Action
Short Term Bank Facilities	2,526.02	CARE-NP A3 [A Three]	Reaffirmed
Total Bank Facilities	2,526.02 [Two Thousand five Hundred Twenty six Million and Twenty Thousand only]		

Details of Facilities in Annexure 1

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of 'CARE-NP A3' assigned to the short-term bank facilities of Kamala Rolling Mills Private Limited (KMPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KMPL continue to derive strength from established and long track record of operations, experienced promoters & directors, established brand presence, diverse product range catering to wide spectrum of industries and favourable demand of steels products in the country. The ratings also factor in moderate capital structure and debt service coverage indicators.

The ratings are however constrained by raw material price volatility and foreign exchange fluctuation risk, elongated working capital cycle, exposure to volatile interest rates and presence in highly competitive nature of iron and steel industry.

Going forward, the ability of KMPL to profitable scale up the operations, improvement in capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established and long track record of operations along with experienced directors in the related field

KMPL has an operational track record of more than two decades in manufacturing TMT Bars, Galvanized Iron/Hard Bright (GI/HB) wires and allied steel products. KMPL derives strength from its promoter group belonging to Vishal Group, having presence in diversified business viz. trading, banking, insurance and manufacturing etc. The company is managed under the overall guidance of its two-member board of directors who possess wide experience in various industries and trading business. Mr. Jagdish Prasad Agrawal, Chairman of KMPL is an industry veteran and has been associated in the business of imports, export, banking and finance sector etc for more than 5 decades. Mr. Nikunj Agrawal is the managing director of KMPL who supervises the operations of the automobile distribution / dealership in the Group and has an experience of more than a decade through his association with various companies.

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

Established brand and marketing setup and diverse product offerings

The company sells TMT bars under the brand name of “Kamala Gold” which is an established brand in the country on account of its long-standing presence. This provides leverage to the company in front of new players entering the industry.

The company is into manufacturing of various types of wires such as GI wires, HB wires and other products such as TMT Bars, Flats, and Section which are produced in various variants. GI wires have various household, industrial and engineering applications. Products such as TMT bars, barbed wire, torkari, flat, section are used for various construction and engineering projects. KMPL sells its product all over Nepal and the sales are through direct marketing to existing as well as new customers.

Moderate financial risk profile

Total operating income (TOI) of the company grew by ~24% in FY21 (Unaudited, FY refers to 12 months period ended mid-July 2021) to Rs. 2,785 Mn. on account of increase in quantity sold coupled with increase in average sales realisation. The quantity sold increased by 11.51% in FY21 over FY20 and average sales realisation was Rs. 86,145 per metric tonne as against Rs. 78,227 per metric tonne in FY20. PBILDT margin also improved from 4.61% in FY20 to 10.47% in FY21. Improvement in PBILDT margin was on account of economies of scale, change in sales product mix and also due to inventory gains on account of increase in prices of iron and steel. Increase in PBIDLT margin also led to improvement in PAT margin which stood at around 5.50% for FY21. KMPL has already achieved sales of Rs. 647 Mn during first three- months of operations in FY22.

The capital structure of the company remained moderate as on mid-July, 2021 marked by overall gearing ratio of 1.42x though deteriorated from 1.23x over previous balance sheet date. However, adjusted overall gearing (net of cash balances) improved from 0.93x to 0.34x. KMPL has healthy interest coverage ratio of 17.08x and moderate Total debt/ Gross Cash Accruals of 6.27x in FY21.

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 FY22, government has allocated Rs. 34 Bn towards post-earthquake reconstruction, Rs. 41 Bn towards urban development, Rs. 163 Bn for physical infrastructure and transport. 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. Government’s high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures and estimated economic growth of 7.00% as included in the budget for FY21-22 is likely to benefit the steel manufacturers like KMPL.

Key Rating Weaknesses***Raw material price volatility risk and foreign exchange fluctuation risk***

The major raw materials for KMPL are imported from India and the prices 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 contributed around 70-80% of the total operating income of the company during FY21, thus, any volatility in prices of the same impacts the profitability of the company. With prices of raw material imported linked to USD, the company is exposed to the foreign exchange fluctuation risk. However, same is

also mitigated to some extent as the company has also practice of forward booking and hedging of partial of its foreign currency exposure. KMPL incurred foreign exchange fluctuation loss of Rs. 13 Mn during FY21 as compared to Rs. 27 Mn in FY20. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks is critical to maintain its profitability.

Elongated working capital cycle of the company

The operations of the company are working capital intensive in nature as majority of its raw materials is in the form of imports which is backed by letter of credit. The company also is required to maintain minimum inventory for smooth operations of its manufacturing process and extend credit to its debtors which lead to high reliance on working capital limits. KMPL generally allows two-months credit period to its customers. The operating cycle of the company was high at 136 days. The average utilisation of fund-based working capital limit against drawing power was around 66% during last 12 months' period ended mid-August, 2021.

Presence in highly competitive nature of steel industry

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 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 TMT bars and related products is low, resulting into low product differentiation in the market. Also, with increase in the capacities of the existing plants and new capacities commencing operations which likely to impact the profitability of players in the industry.

About the Company

Kamala Rolling Mills Private Limited (KMPL) is a private limited company incorporated on December 2, 1991 for manufacturing TMT Bars, Flat, Sections, Galvanized Iron/Hard Bright (GI/HB) Wires, Shutter Spring, Barbed Wire, etc., having plant in Biratnagar, Morang, Nepal. The total installed capacity of the plant is 80,000 Metric Tons Per Annum (MTPA) (Rolling Mills is 60,000 MTPA and Wire Section is 20,000 MTPA) as on mid-July 2021.

Financial Performance:

(Rs. Million)

For the year ended Mid July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Income from Operations	2,579	2,253	2,785
PBILDT Margin (%)	3.67	4.61	10.47
Overall Gearing (times)	1.24	1.23	1.42
Interest coverage (times)	1.58	2.49	17.08
Current Ratio (times)	1.39	1.39	1.40
Total Debt/Gross Cash Accruals (times)	24.55	25.25	6.27

A: Audited, UA: Unaudited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating assigned along with Rating Outlook
Short Term Bank Facilities	Working Capital Loan	1,120.00	CARE-NP A3
Short Term Bank Facilities	Letter of Credit	1,396.02	CARE-NP A3
Short Term Bank Facilities	Bank Guarantee	10.00	CARE-NP A3
Total		2,526.02	

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