

## Godawari Steel Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>[1]</sup>	Rating Action
Long Term Bank Facilities	2,671.90	CARE-NP B+ [Single B Plus]	Reaffirmed
Short Term Bank Facilities	4,128.10	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Bank Facilities</b>	<b>6,800.00</b> <b>(Six thousand Eight hundred Million only)</b>		

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Godawari Steel Private Limited (GSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GSPL continue to remain constrained by leveraged capital structure, working capital intensive nature of operations, foreign exchange fluctuating risk with raw material price volatility and competition from other steel players from industry. The rating also takes into consideration high debt funded ongoing capital expenditure resulting into project implementation and stabilization risk.

The ratings, however, derives strength from established business group and experienced promoter and demand of steels products in Nepal. The rating also took cognizance of the stabilization of operations of the existing facilities.

*Going forward, the ability of GSPL to achieve growth in operations and revenue with improvement in profitability margins and its overall solvency position would be the key rating sensitivities. Also, timely execution of its ongoing capital expenditure & within envisaged cost would be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Project implementation and stabilization risk associated with ongoing capex

GSPL had commenced its manufacturing operations from April 2019. Currently, GSPL has undertaken total capex of Rs. 3,024.83 Mn to be funded in debt-equity ratio of ~70:30; for which the company has already achieved financial closure. Considering its short track record of operations and huge on-going capex in the company, the cash flows of GSPL will remain stretched due to servicing of its debt obligations in the coming years.

#### Below average financial profile

The company achieved total operating income of Rs. 3,032 Mn in FY21 (FY refers to 12 months' period ended mid-July) and PBIDLT margin of 9.62%. On account on high borrowing and depreciation expenses which has restricted its net profitability, GSPL reported low net profit of Rs. 0.71 Mn and gross cash accruals (GCA) of Rs. 91 Mn for FY21. Furthermore, the capital structure of the company stood leveraged at the end of FY21 with overall gearing at 5.10x. Debt service indicators namely interest coverage ratio stood weak at 1.44x and total debt to GCA stood high at 35.79x at the end of FY21.

#### Working capital intensive nature of operations

Total operating cycle of the company stood at 256 days at the end of FY21 on account of higher inventory days of 175 days. GSPL is involved in manufacturing of TMT & plain Steel bars and majority of its raw materials is procured from India; therefore, the company is required to keep high inventory of raw materials to avoid stock-outs and smooth execution of its manufacturing operations. The same leads to the elongated operating cycle and high reliance of the company on bank

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

finance for its working capital requirements. The average quarterly outstanding of fund-based working capital limit against drawing power was almost fully utilized during the last four quarter period ended in mid-October 2021.

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

The major raw materials for GSPL 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 normally contributed ~85% of the total cost of production, 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. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

#### **Presence in highly 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 TMT bars and 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.

#### **Key Rating Strength**

##### **Experienced promoters**

GSPL is promoted by Mr. Munna Prasad Senuriya Baniya, who is associated with Godawari Business Organization (GBO) as an Executive Director. GBO is an ancestral business of the promoter and was established in 1950. The group has been involved in manufacturing of HDPE pipes, garden pipes & water tanks, trading and supply of construction materials, repairing of transformers and fabrication, trading of hardware in drinking water projects. Since the group is operating in the similar line of business in the Nepalese market for decades, it gives them an advantage of existing distribution channel for marketing of manufactured goods from GSPL. The day to day activities of the company are handled by Mr. Senuriya who possesses more than two decades of extensive experience in the related field.

##### **Demand of steels products in the country**

Nepalese economy is developing and growing and is in phase of investment in infrastructure, power and tourism sector. In the budget presented by finance minister of Nepal for FY22, government has allocated Rs. 34 Bn for reconstruction with major focus towards development of health sector, tourism sector and other infrastructure development. However, with economic activities affected by COVID-19 pandemic, demand for steel may remain 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, namely development of roads, hydropower, airports and other infrastructures is likely to benefit manufacturers like GSPL.

#### **About the Company**

Godawari Steel Private Limited (GSPL) is a private limited company promoted by businessman, mainly engaged in manufacturing and trading businesses. The factory is located at Chandranigahapur, Rautahat, Nepal and operating since April 2019. The company is manufacturing TMT & plain Steel Bars with installed capacity of 600 MT per day. The company sells its products under the brand name of 'Godawari Steel'.

## Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2020	2021
	(12m, A)	(12m, UA)
Total Operating Income	1,467	3,032
PBILDT Margin (%)	7.66	9.62
Overall Gearing Ratio (times)	18.26	5.10
Interest Coverage (times)	0.63	1.44
Current Ratio (times)	1.18	1.18
Total Debt/ Gross Cash Accruals (times)	-	35.79

A: Audited; UA: Unaudited

## Contact us

### Analyst

Mr. Rujan Bajracharya

Contact No.: 977-01-4012628

Email: rujan.b@careratingsnepal.com

### Senior Analyst

Ms. Shalini Sanghai

Contact No.: +977-01-4012629

Email: shalini.sanghai@careratingsnepal.com

### Relationship Contact

Name: Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

### About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.