

## Ashok Steel Industries Private Limited<sup>(Revised)</sup>

### Ratings

| Instrument / Facilities    | Amount (Rs. Million)   | Rating <sup>[1]</sup>        | Rating Action |
|----------------------------|--|------------------------------|---------------|
| Long-term Bank Facilities  | 876.22<br>(Increased from Rs. 456.06 Mn)   | CARE-NP BB- [Double B Minus] | Reaffirmed    |
| Short-term Bank Facilities | 1,480.00<br>(Reduced from Rs. 2,155.00 Mn)   | CARE-NP A4 [A Four]          | Reaffirmed    |
| <b>Total Facilities</b>    | <b>2,356.22</b><br><b>[Rs. Two Billion Three Hundred Fifty-Six Million Two Hundred and Twenty Thousand Only]</b> |                              |               |

#### *Details of instrument / facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB-' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Ashok Steel Industries Private Limited (ASPL).

#### **Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of ASPL are constrained by working capital intensive nature of operations, highly leveraged capital structure and weak debt service coverage indicators. The ratings are also constrained by stressed liquidity position, raw material price volatility risk and foreign exchange fluctuation risk, exposure to volatile interest rates and presence in competitive nature of steel industry. The ratings also took cognizance of the subdued performance of the company in FY20 (audited, refers to 12 months period ending mid-July, 2021).

The ratings, however, derive strength from established and long track record of operations along with experienced management team, continued financial support from the promoters, established brand with nation-wide distribution channel and demand of steels products in the country.

*Ability of ASPL to sustainably grow the operations while improving profitability margins and rationalization of its debt through efficient working capital management are the key rating sensitivities.*

#### **Detailed description of the key rating drivers**

##### **Key Rating Weaknesses**

##### ***Subdued financial performance in FY20 marked by decline in sales and net loss, however with improved PBILDT margin***

Manufacturing operations as well as revenue of the company was impacted on account of lockdown imposed by Government of Nepal during FY20. Attributed to same, total revenue of the company declined by ~33% and stood at Rs. 2,261 Mn in FY20. Despite decline in total revenue, PBILDT and PBILDT margin of the company improved significantly in FY20 due to in-house production of billets by the company resulting saving in manufacturing costs. However, on account of high dependency on external borrowings leading to high interest expenses which restricted the net profitability of the company. Also on account of high provisioning of deferred tax, ASPL reported net losses in FY20. During 10MFY21, the performance of ASPL has improved and the company has achieved total operating income of Rs. 4,057 Mn and PBILDT of Rs. 420 Mn.

##### ***Highly Leveraged capital structure and weak debt service coverage indicators***

On account of net losses reported by the company during last 2 fiscal years (FY19 & FY20), the networth of the company stood negative. With the low base of own funds, its operations are highly susceptible to any business shocks and

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

vulnerability of its financial risk profile to any incremental debt is high. However, to support the business operations, the promoters have been infusing funds in the form of interest-free unsecured loans to meet the liquidity requirements of the company. The amount of unsecured loans extended by the promoters stood at Rs. 95 Mn as on mid-July, 2020. The interest coverage ratio of the company was moderate at 1.68x while Total Debt/ Gross Cash Accruals was high at 24.63x in FY20.

#### ***Working capital intensive nature of operations and stressed liquidity position***

Operations of the company are working capital intensive marked by an average operating cycle of around 187 days during FY20. Being a highly competitive business, the company has to extend credit to its dealers and the average collection period remained high at around 122 days during FY20. Being a manufacturing company, ASPL is required to maintain adequate inventory of material to ensure regular supply for uninterrupted manufacturing operations, the average inventory period remained high at around 102 days during FY20. ASPL procures its raw materials through local purchase as well as imports through Letter of Credit. Average creditor's period was 37 days during FY20. Almost full utilization of working capital limits during 12-months ending mid-May 2021 and low current ratio as on the last three balance sheet dates reflects stressed liquidity and working capital intensive nature of operations.

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

The major raw materials for ASPL being Sponge Iron and Scrap are majorly imported from India for which prices are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices having a bearing on its profitability margins. The raw material cost contributed around 87% of the total operating income of the company in FY20. Furthermore, in FY20 ~ 54% of the total raw material requirement was imported and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. ASPL reported foreign exchange fluctuation loss of Rs. 21 Mn in FY20. 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.

#### ***Highly Competitive nature of Industry***

The iron and steel industry are intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. 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.

#### ***Key Rating Strengths***

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

ASPL has an operational track record of more than three decades in manufacturing TMT Bars and allied steel products. ASPL is managed under the overall guidance of its two members Board of Directors (BoD) who possess wide experience in the manufacturing sector. Mr. Poonam Chand Agrawal is the Chairman and the managing director of ASPL and has over 30 years of experience in steel manufacturing industry. Mr. Abhishek Tulsian is the Chief Executive Officer who has been working in ASPL actively from last 8 years. The directors of the company have been also infusing funds into the company in the form of directors' loan to fund the operations as and when required by the company.

### ***Established brand with country wide distribution presence***

The company sells TMT bars under the brand name of “Ashok TMT” which is an established brand in the Nepal market on account of its long-standing presence in the industry. This provides leverage to the company in front of new players entering the industry. Further, ASPL has a developed dealer/distributor network of around 271 dealers across the country which provides a ready market for its products.

### ***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. It is highly probable that the national economy will be in need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. In the recent budget for FY22, government has allocated funds for post-earthquake reconstruction, also with major focus towards development of health sectors, tourism sectors and other infrastructure development. Further, the government’s high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures and estimated GDP growth of 6.50% as included in the budget for FY20-21 is likely to benefit the iron and steel manufacturers.

### **About the Company**

Ashok Steel Industries Private Limited (ASPL) is a private limited company incorporated on February 22, 1984 for manufacturing TMT Bars and Ingots. The company is having its manufacturing facilities situated in Gadhimai Municipality-10, Bara, Nepal.

### **Financial Performance**

(Rs. Million)

| For the Period Ended / as at Mid-July, | 2018     | 2019     | 2020     | 2021      |
|--|----------|----------|----------|-----------|
|  | (12m, A) | (12m, A) | (12m, A) | (10m, UA) |
| Total Operating Income                 | 3,594    | 3,354    | 2,261    | 4,057     |
| PBILDT Margin (%)                      | 9.55     | 1.84     | 12.03    | 10.36     |
| Overall Gearing Ratio (times)          | 8.24     | -ve      | -ve      | 9.17      |
| Interest Coverage (times)              | 3.05     | 0.37     | 1.68     | 3.23      |
| Current Ratio (times)                  | 0.99     | 0.81     | 0.73     | 1.07      |
| Total Debt/Gross Cash Accruals (times) | 7.52     | -ve      | 24.63    | 7.34      |

A: Audited

### **Annexure-1: Details of Instrument / Facilities**

| Name of the Instrument / Bank Facilities | Type of the Facility  | Amount (Rs. in Million) | Rating assigned |
|--|-----------------------|-------------------------|-----------------|
| Long Term Bank Facilities                | Term Loan             | 876.22                  | CARE-NP BB-     |
| Short Term Bank Facilities               | Fund Based Limits     | 200.00                  | CARE-NP A4      |
| Short Term Bank Facilities               | Non-Fund Based Limits | 1,280.00                | CARE-NP A4      |
| <b>Total</b>                             |                       | <b>2,356.22</b>         |                 |

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