Godawari Steel Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**2,671.90**	**CARE-NP BB- [Double B Minus]**	**Revised from CARE-NP B+**
Short Term Bank Facilities	**4,128.10**	**CARE-NP A4 [A four]**	**Reaffirmed**
Total Facilities	**6,800.00 (Six Thousand and Eight Hundred Million Only)**		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of GSPL factors in the company's improving financial risk profile as reflected by continued growth in scale of operations for the last two financial years (FY21 & FY22; FY refers to the twelve-month period ending mid-July) along with reasonable profitability margins. The ratings also take cognizance of the expected improvement in the company's profitability indicators going forward, owing to the benefits derived in terms of raw materials cost after completion of the ongoing backward integration (installation of CCM plant) coupled with expected continuation in the increasing trend of scale of operations once the additional wire rod unit comes online.

The ratings remain constrained by residual project implementation and stabilization risk associated with ongoing capex, working capital intensive nature of operations and raw material price volatility risk, susceptibility to volatile interest rates and the company's presence in highly competitive industry.

The ratings continue to derive strength from experienced promoter and the company being part of an established business group having presence in diversified sectors, established brand with countrywide presence, and locational advantage for procurement of raw materials as well as selling its products.

Going forward, the ability of GSPL to achieve growth in scale of operations along with improvement in profitability margins and its overall solvency position would be the key rating sensitivities. Also, timely completion of its ongoing capital expenditure within envisaged cost and early stabilization of operations thereafter would be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Residual project implementation and stabilization risk associated with ongoing capex

GSPL is undergoing brownfield expansion, which includes three major projects– backward integration of TMT bar manufacturing unit (installation of CCM Plant), automation of a component of the existing rolling mill, and the addition of a wire rod unit. The total cost of the capex is Rs. 3,014 Mn, funded in debt-equity ratio of 70:30. As on mid-October 2022, around 70% of the financial progress has been achieved, and the operations of the added facilities are expected to commence by the end of FY23 (FY refers to the twelve-month period ended mid-July 2023). Although the project is in the final stages of completion, timely execution and within envisaged cost remains to be seen and will be a key monitorable.

[1]Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications.

Working capital intensive nature of operations

The operating cycle of the company stood high at 212 days at the end of FY22 (Unaudited), albeit improved from 253 days in FY21 (Audited). GSPL, involved in manufacturing of TMT bars and torkari, procures majority of its raw materials from India due to which the company is required to maintain adequate level of inventory of raw materials in order to ensure smooth manufacturing operations. In addition, the company also needs to advance credit to its customers (generally for upto three months), considering its presence in a highly competitive industry. The average inventory holding period and average collection period stood at 105 days and 112 days respectively in FY22 (FY21: 140 days and 128 days respectively). Combining all these factors lead to an elongated operating cycle and reliance of the company on bank finance for its working capital requirements. The company's average quarter-end outstanding of fund-based working capital borrowings against sanctioned limit was 62.42% during the last one-year period ended in mid-October 2022.

Raw material price volatility risk and foreign exchange fluctuation risk

The prices of major raw materials for GSPL, which are majorly imported from India, are market linked and determined on a periodic basis. This exposes the company to the volatility in the prices having bearing on its profitability margins. Raw material cost contributes around 90% 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 also exposed to 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 steel prices.

Key Rating Strengths

Experienced promoter

GSPL is promoted by Mr. Munna Prasad Senuriya Baniya, who is also an Executive Director of Godawari Business Organization (GBO). GBO, established in 1950, is an ancestral business of Mr. Baniya and family. 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 has been 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.

Increasing scale of operations with reasonable profitability margins

The company's total operating income grew by 79.38% in FY22 to Rs. 5,403 Mn, with PBILDT margin of 7.94%. Earlier in FY21, the total operating income had doubled to Rs. 3,012 Mn from Rs. 1,467 Mn in FY20 owing to the first full year of operations. Amid substantial growth in scale of operations within a relatively short period, PBILDT margin has remained relatively stable at around 8-9%. Furthermore, the capital structure of the company improved at the end of FY22 with the overall gearing of 3.56x (FY21: 3.94x), aided by equity infusion of Rs. 800 Mn. The increasing trend of scale of operations in expected to continue going forward, considering the additional wire rod unit becomes operational by the end of FY23. In addition, the company is expected to receive benefits in terms of raw materials cost after its CCM plant becomes operational, likely improving its profitability margins and improving its competitiveness in the market in terms of price.

Demand of steels products in the country

Nepalese economy is developing and is in the phase of investment and growth in infrastructure, power sector and tourism sector, notwithstanding the lingering impact of the covid-19 pandemic. In the budget presented by finance minister of Nepal for FY23, Government of Nepal has allocated Rs. 161.56 Bn for infrastructure development along with an estimated GDP growth of 8.00%. Government's continued high emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures augurs well for the business prospects steel manufacturers like RSPL over the medium term.

About the Company

Godawari Steel Private Limited (GSPL) is a private limited company promoted by businesspeople, 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 steel bars and torkari with installed capacity of 600 Metric Ton Per Day. The company sells its products under the brand name of 'Godawari Steel'.

Financial Performance

For the period ended	FY20 (Audited)	FY21 (Audited)	FY22 (Unaudited)
Total Operating Income	1,467	3,012	5,403
PBILDT Margin (%)	7.66	9.29	7.94
Overall Gearing Ratio (times)	18.26	3.94	3.56
Interest Coverage (times)	0.63	1.39	1.20
Current Ratio (times)	1.18	1.18	1.30
Total Debt/ Gross Cash Accruals (times)	Negative	38.95	68.05

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	2,671.90	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	4,128.10	CARE-NP A4
Total		**6,800.00**	

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