

## Malika Steels Private Limited

### Rating

Facility/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	256.00	CARE-NP B+ [B Plus]	Reaffirmed
Short Term Bank Facilities	744.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>1,000.00</b>		

*Details of Facilities in Annexure 1*

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

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MSPL is constrained by the operations stabilization risk associated with its recently commenced manufacturing plant. Although the ratings take cognizance of commencement of commercial operations during the review period, the company's ability to achieve income and profitability as earlier envisaged remains to be seen, particularly amid a challenging business environment with muted demand outlook in the industry. The ratings continue to factor in raw material price volatility risk and foreign exchange fluctuation risk, exposure to volatile interest rates and presence in highly fragmented and competitive nature of wire industry. The ratings, however, continue to derive strength from experienced individual promoters with institutional backing, multiple product offerings catering to wide range of end user industries, stable demand outlook of steel products in the country over the medium term despite near-term industry headwinds, and locational advantage for raw materials with scope of export.

*Going forward, the ability of the company to achieve swift stabilization of operations leading to growth in scale while achieving profit margins as envisaged and rationalization of its debt through efficient working capital management would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Operations stabilization risk

The company commenced commercial operations of its partly debt funded green-field facility for manufacturing steel wires and allied products with total installed capacity of 26,812 metric tons per annum from November 2022. Capacity utilization in the first seven months of operations has been around 50% leading to total income of Rs. 754 Mn. In the early months of operations, salability risk is moderated somewhat by the current selling arrangements made with the company's sister concerns. However near-term demand outlook for steel products in the country remains impacted by slow market demand owing to lower capital expenditure by the government. Retail demand also remains muted owing to the tight liquidity and reduced credit appetite of BFIs leading to lesser construction activities. Hence, ramping up of scale of operations, as earlier envisaged, remains to be seen and will remain a key monitorable aspect.

##### Working capital intensive nature of operations

Manufacturing steel products such as wires and other allied products is a working capital intensive business as the company is required to maintain the requisite inventory owing to a large product portfolio coupled with the long lead time for importing raw materials from India. The company needs to maintain inventory of raw materials for at least three months for smooth running of its operations, which is likely to result in an elongated operating cycle leading to increased dependence on working

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

capital borrowings. The operations is in nascent stage and average monthly fund based working capital limit utilization was 53.73% of the sanctioned limit for the eight months ended mid-March 2023. This is likely to increase as the scale of the operations ramps up going forward.

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

Mild steel wire rod is the major raw material for MSPL, 90% of which is imported from India. The prices of the MSPL's raw materials are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials, which will have a bearing on its profitability margins. Thus, any volatility in prices of the same will impact the profitability of the company. Furthermore, majority of the total raw material requirement is met through imports and the prices of the same is linked to USD, for which the company will be exposed to the foreign exchange fluctuation risk. The ability of the company to pass on the changes in raw material prices to the finished products while managing the foreign exchange fluctuation risks related to raw materials will be critical for company's profitability.

### **Exposure to volatile interest rates**

The company has substantial interest outgo lined up in coming few years owing to recently concluded debt funded capex coupled with working capital to fund its inventory holding. The company's interest rates are based on a floating interest rate regime, where a certain premium is added to quarterly base rate and interest rate is changed accordingly on quarterly basis. Base rate of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Sustained high interest rates, as seen over the last year or so, add to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

### **Presence in highly competitive nature of wire industry**

The steel wire industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. The value addition in the wires and related products is relatively low, resulting in low product differentiation in the market and low entry barriers to the industry. The demand for wires and allied products is also considered cyclical as it depends on the capital expenditure plan of major players in the end-user industry. Furthermore, with increase in the capacities of the existing plants and new capacities coming into operation, competition has intensified which could put added pressure on the profitability margins.

### **Key Rating Strengths**

#### **Experienced individual promoters with institutional backing**

MSPL is promoted by six individual promoters with substantial experience in the related business, and three institutional promoters involved in allied business. Mr. Tikaram Jaishi, Chairman, has an experience of more than 20 years in the steel hardware industry. He is also the chairman in AK Traders and Hardware Private Limited (trading of construction hardware equipments), Malika Incorporate (parent company holding allied group companies), Roshni International Agro Private Limited (trading of steel hardware), Malika Taar Jali Steel Udhog Private Limited (manufacturing of steel hardware) and Shree Malika Devi Investment Company Private Limited (real estate and stock market investment), with the latter three also being the institutional promoters of MSPL.

#### **Locational advantage for raw materials and multiple products offerings**

MSPL's manufacturing facility is located at Tikapur, Kailali which is around 20 Km from Satti Customs Office, Kailali. Since majority of raw materials used by MSPL are imported through India, the factory's proximity to the Indian border provides a competitive advantage in terms of savings in freight cost. In addition, upon favorable market conditions, the company could also explore exporting its products to India in the future. MSPL manufactures steel products of wide range with varied usages. Based on the current production facility, the company's product portfolio includes GI wires, nails, torkari, barbed wires, chain

link, screw, binding wire and shutter spring, all of which will be produced in different sizes/variants with application in wide range of industries. MSPL sells majority of its products to its allied companies and remaining to dealers/traders in western region of Nepal.

### About the company

Malika Steels Private Limited (MSPL) is a private limited company incorporated on April 27, 2021 for manufacturing steel wires and allied products. The company's manufacturing facility is located in Tikapur, Kailali, Nepal with total production capacity of 26,812 Metric Tons Per Annum. MSPL commenced its fully fledged operations from November 2022.

### 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	256.00	CARE-NP B+
Short Term Bank Facilities	Fund Based Limit	500.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	150.30	CARE-NP A4
Short Term Bank Facilities	Proposed	93.70	CARE-NP A4
<b>Total</b>		<b>1,000.00</b>	

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