

Siddhivinayak Steels Private Limited

Ratings

Facilities*	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	270.64	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	1,980.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	2,250.64 (Two Billion Two Hundred Fifty Million and Six Hundred Four Thousand only)		

*Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SSPL is constrained by its weak operational performance of the company in FY23 (Unaudited, FY refers to the twelve-month period ending mid-July) amid sluggish demand coupled with stiff competition leading to suppressed profitability and modest debt service coverage indicators, stressed liquidity position of the company owing to declining cash flow from operations, highly leveraged capital structure, working capital intensive nature of operations, raw material price volatility risk, foreign exchange fluctuation risk and exposure to volatile interest rates. The ratings, however, derive strength from SSPL's experienced promoters and management in the related field with it being a part of Goenka Group, locational advantage of its manufacturing facility and stable demand outlook over the longer run despite near term industry headwinds.

Going forward, the ability of the company to profitably scale up the operations with sustained improvement in capacity utilization, and rationalization of its debt through efficient working capital management leading to improved debt coverage and solvency indicators will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Weak financial performance in FY23

Total operating income of the company declined by ~36% to Rs. 1,335 Mn in FY23 from Rs. 2,067 Mn in FY22 on account of muted demand as economic activities remained subdued in the country. More concerning, the company reported losses at PBILDT level in FY23 on account of substantial inventory losses. There was decline in the prices of iron and steel in FY23 and company had higher prices inventory procurement in the past which SSPL was unable to pass on to its customers. This resulted in losses for the company as cost of sales amounted to ~98% of TOI. Amid declined operating efficiency coupled with increased finance expenses, the company reported net losses of Rs. 256 Mn in FY23 vis-à-vis net profit of Rs. 47 Mn in FY22.

Highly leveraged capital structure with modest coverage indicators

Total gearing ratio of the company was highly leveraged at 6.25x at the end of FY23 which deteriorated from 3.10x at the end of FY22. This was majorly on account of increase of debt and deterioration of tangible net worth during FY23. Attributed to losses at PBIDLT levels, SSPL had negative interest coverage ratio in FY23. Total debt to gross cash accruals of the company

was also negative in FY23 owing to negative cash accruals. The company's ability to turnaround operating performance leading to improved cash generation from operations will be critical from credit perspective.

Elongated operating cycle with working capital-intensive nature of operations

SSPL is involved in manufacturing of wide range of steel products by majorly importing raw materials. SSPL purchases its raw materials through Letter of Credit and also has to fund the inventory and debtors which lead to high reliance on working capital limits. Total operating cycle of the company was highly elongated at 316 days in FY23 marked by average inventory holding period of 254 days in FY23. This leads to high reliance of the company on the bank finance for working capital needs leading to relatively high debt levels vis-à-vis its scale of operations.

Raw material price volatility risk and foreign exchange fluctuation risk

SSPL does not have any backward integration for its basic raw material (HRC/CRC) for producing MS pipes. Raw materials are majorly imported from India, prices of which are volatile. The raw material cost contributes around 80% of the total operating cost of the company, thus, any volatility in prices of the same impacts the profitability of the company. Further, the majority of its raw material requirements is imported, prices of which is linked to USD, for which it is exposed to the foreign exchange fluctuation risk. During FY22, the company incurred foreign exchange fluctuation loss of Rs. 14 Mn which decreased to Rs. 3 Mn in FY23. The ability of the company to pass through changes in raw material prices to the customers and manage the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

Exposure to volatile interest rate risk

The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company is exposed to volatile interest rate.

Presence in highly competitive nature of steel industry

The iron and steel industry are intensely competitive 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 like CR and HR pipes, strips & related products is low, resulting into low product differentiation in the market.

Key Rating Strengths

Established track record of operations along with experienced management team in the related field

SSPL is promoted by Goenka Group, headed by Mr. Ram Gopal Goenka as a Chairman. Mr. Goenka has work experience of more than 35 years in the field of construction industry, financial sector and trading business. Goenka group, with an existence of more than 30 years, is one of the business groups in Nepal with diversified business involved in both manufacturing and trading of various goods. The business portfolio of the group ranges from manufacturing of cement, steel products, trading and processing of FMCG (rice, Edible oil, etc.), electronics, and so on.

Locational advantage and product diversification

SSPL manufactures MS Pipe that has great usage in construction, automobile, chemical and oil industries including residential housing, shed construction. The required raw materials are majorly imported from India and the suppliers deliver the raw materials till Nautanwa railway Siding, Uttar Pradesh, India which is ~27 kms from Bhairahawa and Parasi, thereby leading to cost efficient procurement of raw materials and logistics management. Also, the plant location is central point to the potential markets of Nepal with no other major MS-Pipe manufacturing unit nearby and is also well connected by road network.

Industry prospects

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. Sustained demand for steel is likely given the need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Hence, demand of steel products in the country is expected to grow over the long term. However, with the construction sector in Nepal currently impacted by slower pace of economic growth coupled with relatively lower infrastructure spending by the government, the outlook of steel industry in Nepal remains challenging over the near term. The government's long-term emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures is likely to benefit steel product manufacturers like SSPL in the long term.

About the Company

Siddhivinayak Steels Private Limited (SSPL) is a private limited company which was incorporated on February 07, 2018 for setting up a Mild Steel (MS)- Black Pipes and cut to length products manufacturing capacity of 73,000 Metric Tons Per Annum (MTPA) as on October, 2023 in Nawalparasi, Nepal. SSPL has been promoted by the Goenka Group. Goenka group is one of the business groups in Nepal with diversified businesses involved in both manufacturing and trading of various goods.

Brief financials of SSPL for the past three years ended FY23 are given below:

(Rs. Million)

For the year ended Mid-July	FY21	FY22	FY23
	(Audited)	(Audited)	(Provisional)
Income from Operations	1,737	2,067	1,335
PBILDT Margin (%)	19.50	13.03	Negative
Overall Gearing (times)	3.93	3.10	6.25
Interest Coverage (times)	3.84	1.92	Negative
Current Ratio (times)	1.24	1.27	1.76
Total Debt/Gross Cash Accruals (times)	7.62	16.59	Negative

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	270.64	CARE-NP B+
Short Term Bank Facilities	Fund/Non-Fund Based Limit	1,980.00	CARE-NP A4
Total		2,250.64	

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