PRESS RELEASE

JAGDAMBA STEELS PRIVATE LIMITED
July 2022

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	5,997.33	IRN BBB	Assigned
Short Term Bank Facilities	28,376.25	IRN A3+	Assigned
Total	**34,373.58**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal (Infomerics Nepal) has assigned the long term rating of IRN BBB (Triple B) to the long term bank facilities of NPR 5,997.33 Mn and IRN A3+ (A Three Plus) to the short term bank facilities of NPR 28,376.25 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Jagdamba Steels Private Limited (JSPL) derive strength from JSPL's established and long track record of operation with experienced promoters and management personnel in steel industry, moderate financial risk profile marked by growth in revenue, profitability and internal accruals in FY21[1] and in H1FY22[2]. Backward integration of the plant resulting in reduced manufacturing cost, diversified product portfolio with established brand recognition and usability to wide range of industries, market presence across the country, proximity to Indian border leading to savings in freight cost, generating export sales, government support for production-based industries and healthy demand outlook of steels products are the other rating strengths of the company.

These rating strengths, however, are constrained by its low capacity utilisation, high gearing levels due to high reliance on bank finance for funding, weak debt service coverage indicators, elongated operating cycle and susceptibility of profitability to volatility in raw material price. Further, the ratings also note exposure to foreign exchange fluctuation risk and regulatory risk, intense competition present in the steel industry and exposure to cyclicality inherent in the steel industry. Going forward, improvement in the capital structure along with the improvement in debt protection metrics and momentous growth in scale of business with improvement in profitability metrics may lead to positive rating action. Further, the ability of the company to manage the raw material cost in order to enhance its profitability and movement in gearing will remain the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established and long track record of operations with experienced promoters and management team in the steel industry

JSPL has an operational track record of more than two decades in manufacturing of various steel products. Further, JSPL is a part of Shanker Group and derives its strength from promoters having strong presence in Nepal through their group entities in various industries like steel, cement, polymers, trading, hospitality, insurance etc. The promoters have experience of over two decades in steel industry. Mr. Shahil Agrawal, managing director has 20 years of experience in trade and industry. He is also the managing director of Shanker Group and holds directorship in various other group companies.

[1] twelve months' period ending mid-July
[2] six months' period ending mid- January

Moderate financial profile characterized by growth in revenue, profitability and internal accruals
JSPL reported improvement in total operating income (TOI) in FY21 by ~40% on account of improved average price realization as well as increased sales quantity for all the products. FY20 and FY21 was largely impacted by Covid-19 resulting decline in TOI compared to FY19. Nonetheless, owing to increase in TOI, EBITDA of the company also improved by ~79% with improvement in EBITDA margin from ~6% in FY20 to ~7.7% in FY21 and ~13.2% in H1FY22. Also, JSPL was able to book profit in FY21 vis-à-vis net loss in FY20. During H1FY22, it was able to generate TOI of NPR 21,668 Mn.

Backward integration of the plant resulting savings in manufacturing cost
JSPL has also been producing billet for captive consumption which has reduced the production cost of the company. The major raw material for production of MS Billets being sponge iron and pig iron are imported while scrap is being procured from domestic market. With lower cost for processing of sponge iron and scrap, leading to savings in cost of power and fuel, in-house production of billet is very economical.

Diversified product portfolio having usability to wide range of industries
JSPL has diversified portfolio of iron & steel products that have varied usages across various industries. The company manufactures TMT bar, angles, section, pipes, shutter profile, coils, sheets, different wire products which are produced in various variants as per the demand in the market. The wide application not only diffuses the risk of dependency on a single industry but also allows the company to cater to a larger market with a broad customer base.

Established brand recognition and market presence across the country
JSPL sells its products under various brand names all over Nepal with “Jagdamba E”, “Rhino 500D”, “Jagdamba Super Shine”, “Jagdamba Galva+”, “Jagdamba Pipe” and “Jagdamba Wire” being few of the major brands. The company's well-established brand maintains consistent demand and aids in product differentiation from competitors. This has helped to reduce the impact of competition induced volatility in prices and maintain a significant presence in the Nepalese market with healthy turnover. Further, JSPL sells its products across the country and the sales are majorly through established dealer network and depots at various locations. JSPL normally makes ~95% of revenue through dealers and balance ~5% through direct sales. JSPL has also started export of its product from FY22.

Proximity to Indian border leading to savings in freight cost and generating export sales
The plant site is close to Indo-Nepal borders which has led to saving in freight cost as the majority of raw materials requirements are imported. Further, JSPL has also been exporting its products from FY22 and factory’s proximity to Indian border has eased the export as well.

Government support for production based industry and demand outlook of steels products
Nepal is a growing economy and is continuously focusing on development of various sectors. The budget for FY23 has focused on high and sustainable growth by building a production-based economy. Cash subsidy up to 8% shall be provided for export of steel products. Concession up to 15% shall be given to industries consuming electricity of NPR 100 Mn or more. Also, GoN has allocated NPR 380 Bn for various capital expenditures which indicates growing demand for construction materials like steel products in developing public as well as private infrastructures, road, bridges and other public facilities.

Key Rating Weaknesses

Low capacity utilisation
The capacity utilization of the company has been on lower side with average of ~26% in past three financial years ended FY21. JSPL has an installed capacity of 2,444,000 MTPA which has increased from 2,030,000 MTPA in FY21 on account of addition of CRM plant. The decline in capacity utilization in FY20 and FY21 was mainly due to the impact of Covid-19. However, with normalization of economy as well as addition of

new CRM plant, capacity utilization has improved in H1FY22. JSPL's ability to enhance its capacity utilization while improving margin remains a key rating monitorable.

High gearing levels with weak coverage indicators
Total debt level of the company rose by NPR 4,725 Mn as on mid-July, 2021 compared to FY20 mainly due to increase in working capital loans to fund increased operations of the company. As a result, overall gearing ratio of the company deteriorated and remained high at 3.98x as on mid-July, 2021 compared to 3.76x as on mid-July, 2020. However, with repayment of term loan as well as improved net-worth resulting from accretion of profit, coverage indicators were supported to some extent. Given the ballooning repayment structure, JSPL's repayment capacity will depend on its availability to scale up its operation while improving margins.

Elongated operating cycle with high reliance on bank finance for funding
JSPL's liquidity remains stretched due to high working capital utilizations at ~97% during last 12 months' period ended mid-May, 2022 which indicates companies' high reliance on working capital loans for funding its operations. Further, the same is also reflected in high working capital intensity of ~55% as of FY21. Being an import oriented company, JSPL is required to maintain high inventories for which company has to pay through letter of credit at sight resulting lower creditor days. JSPL had high operating cycle of 171 days in FY21 which however reduced from 231 days in FY20.

Volatility in raw material price and exposure to regulatory risk
The major raw material for JSPL being HR/CR Coils, wire rod, pig iron and sponge iron are majorly imported from India and China for which the prices are market linked and set on a periodic basis. This exposes the company to the volatility in the raw materials prices having direct impact on its profitability margins. The raw material cost normally contributes ~70-80% of the total operating income of the company resulting major impact on profitability with any changes in the price. Also, JSPL is partially constrained by regulatory risk arising from various/ policies from both Nepal and India. Recently during May 2022, GoI[3] imposed tax of 15% on export of HR sheet, also GoN raised the duty on import of billet to 5% with additional excise duty of NPR 2.50/ kg through budget for FY22. All these changes in the regulatory front, are expected to impact the performance of the company like JSPL going forward.

Exposure to foreign exchange fluctuation risk
JSPL is exposed to foreign exchange fluctuation risk due to the mismatch in currency, where more than 80% if its raw materials are imported (in USD) while realization of the finished goods are in local currency. JSPL normally uses dollar Trust Receipt Loan due to lower interest rate, exposing the company to a forex risk. Nonetheless, these risks are mitigated to some extent as the company has already started using hedging instruments.

Intense competition present in the steel industry
The iron and steel industry has numerous small and large, organized and unorganized players making it intensely competitive. The low entry barrier has limited the pricing flexibility and bargaining power of the players in the industry. The demand of iron & steel products is considered cyclical and with massive capacity enhancement of the industry due to the entry of new players as well as the substantial capacity expansion by the existing players has shrined the net realization price of the iron and steel products resulting in lower operating revenue and profits. 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.

Analytical Approach: Standalone

[3] Government of India

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
JSPL is a private limited company incorporated on October, 1993 and has plant in Jitpur, Simara-2, Bara, Nepal for manufacturing of various steel items with total installed capacity of 2,444,000 MTPA. The manufacturing facilities of the company has been segregated into Cold Rolled Products, Rolling Mills Products, Wire Products and Melting Products where variety of products are manufactured. JSPL is a part of Shanker group having strong presence in Nepal through its involvement in various industries.

Financial Indicators (Standalone)

For the year ended* As on	FY19	FY20	FY21	H1FY22
	Audited			Provisional
Total Operating Income (in NPR Mn.)	35,872	21,099	29,557	21,668
EBITDA Margin (%)	7.22	6.00	7.68	13.21
Interest Coverage Ratio (x)	1.80	1.16	3.00	3.91
Current Ratio (x)	1.20	1.14	1.07	1.15
Overall Gearing Ratio (x)	3.85	3.76	3.98	3.76

* *Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan (TL)	Long Term	5,997.33	IRN BBB
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	4,215.00	IRN A3+
Non Fund Based Bank Facilities	Short Term	24,161.25	IRN A3+
Total Facilities		**34,373.58**	

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