

## PRESS RELEASE

### EVEREST ROLLING INDUSTRIES PRIVATE LIMITED

September 2022

#### Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	8.40	IRN B+	Assigned
Short Term Bank Facilities	1,360.00	IRN A4	Assigned
<b>Total</b>	<b>1,368.40</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B+ (Single B Plus) to the long term bank facilities of NPR 8.40 Mn and IRN A4 (A Four) to the short term bank facilities of NPR 1,360.00 Mn.

#### Detailed Rationale

The ratings assigned to the bank facilities of Everest Rolling Industries Private Limited (ERIPL) derive strength from its experienced promoters and management team in the related field leading to the better understanding of the market dynamics. The ratings also factor in the group's financial strength, long track record of operations with its plant located in proximity to Indian boarder. These rating strengths, however, are partially offset by the below average financial risk profile marked by volatility in profitability and modest debt service coverage indicators. Further, the ratings also note ERIPL's exposure to foreign exchange risks, interest rate volatility risk, volatility in prices of raw materials, regulatory risks and elongated operating cycle with high reliance on bank finance for funding. Going forward, sustained growth in revenue with stable operating margin and prudent working capital management aiding financial risk profile will remain the key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### Experienced promoters and management team in the related field

ERIPL has an operational track record of more than four decades in manufacturing of various steel products under the brand name of "EVROL". ERIPL is a part of Goenka Group and derives strength from an experienced promoter group with a strong presence in the western region of Nepal especially in steel, trading and food product industries. The major operations of the company are overseen by Mr. Nanda Lal Goenka, Chairman, who has over four decades of experience in the steel industry. Moreover, strong support from the group in the form of continuous equity infusion<sup>1</sup> provides a comfort against the relatively weak financial profile of the business.

##### Proximity to local suppliers and Indian boarder leading to lower lead time with savings in freight cost

The factory location of ERIPL remain advantageous considering ~45% of M.S. billets sourced from various local suppliers in FY22 since this enabled ERIPL to better management of inventory especially due to lower lead time. Further, the factory's proximity to the Indo-Nepal boarder remain supported in reduction of freight costs.

##### Key Rating Weaknesses

<sup>1</sup>Equity Infusion of NPR 20 Mn in FY22 and NPR 30 Mn in FY21

## **Below-average financial profile marked by volatility in profitability and modest debt service coverage indicators**

The below-average financial profile of ERIPL is evidenced by a sharp decline in the EBITDA<sup>2</sup> margins and modest debt service coverage indicators. The EBITDA margin of ERIPL in FY22 was 1.41% vis-à-vis 5.67% in FY21. This fall in margin was primarily due to the increase in duties by both GoN<sup>3</sup> and GoI<sup>4</sup> affecting the import of billets and other allied products along with the inability of ERIPL to fully pass on the increased cost of raw materials to final consumers amidst competition. The interest coverage of ERIPL has declined from 2.49x in FY21 to 0.61x in FY22 due to the squeezed operating margin coupled with increased interest cost in FY22. Accordingly, ERIPL's total debt to EBITDA has increased from 7.50x in FY21 to 16.25x in FY22 while the total outstanding debt to tangible net worth improved marginally to 4.35x in FY22 from 4.57x in FY21. Nevertheless, rapid recovery in the revenue during FY21 and FY22 after initial slump in FY20 due to COVID-19 remains a positive.

## **Regional player in a highly fragmented and competitive industry**

ER IPL is a regional player with a strong foot holding in the western region of Nepal. In FY22, ~95% of the sales were attributable to western region of Nepal, reflecting high sales concentration in a specific region. Further, ERIPL also faces severe challenges, especially in the iron and steel industry which is highly fragmented and competitive industry with cyclical demand hence provides little room for product differentiation.

## **Volatility in prices of raw materials and exposure to regulatory risks**

ER IPL has begun sourcing its major raw material such as M.S billet and M.S. wires locally in the face of restrictions imposed due to a recent change in excise and custom duties. Nevertheless, it is still susceptible to volatility in the prices of raw materials as these local suppliers are again reliant on import. These risks are further heightened as the cost of raw materials corresponds to 85-95% of the total operating income. Hence, any significant changes in the duties would have a bearing on the steel manufacturers like ERIPL's profitability going forward.

## **Elongated operating cycle, with high reliance on bank finance for funding**

ER IPL's liquidity remains stretched due to high working capital utilization at ~81% during FY22 which has been utilized to fund its operations. ERIPL continues to maintain high inventories to ensure availability of raw materials during periods of demand. The operating cycle of ERIPL during FY22 was 115 days which had drastically improved from 165 days in FY21. Nevertheless, the company has started sourcing ~50% of the raw materials locally which is expected to reduce the inventory levels of ERIPL going forward.

## **Interest rate volatility risks and foreign exchange risks**

The Interest rates on deposits and borrowing remains a significant factor in the Nepalese economy. In line with NRB's directives, the BFIs typically charge interest rate on loans by adding a premium to the base rate which are revised on a quarterly basis. The interest rates charged by BFIs have been historically volatile over the past 2-3 years and thus borrowing from banks and financial institutions exposes ERIPL to risk of interest rate volatility. Additionally, ERIPL is exposed to foreign exchange fluctuation risk due to mismatch in currency as ~50% of the raw materials are imported while the realization of the finished goods is in local currency. ERIPL utilizes dollar Trust Receipt Loans due to lower interest rates which exposes ERIPL to forex risks.

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<sup>2</sup> Earnings before interest, tax, depreciation and amortization

<sup>3</sup> Government of Nepal

<sup>4</sup> Government of India

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

**About the Company:**

Incorporated on June 1978, ERIPL is a private company having its plant located at Omsatya, Bhairahawa, Nepal for manufacturing of various steel products with total installed capacity of 29,700 MTPA. The company manufactures Angle, Flat Rod (Patti), Square Rod, Plain Rod, Torkari and Thermo-mechanically treated (TMT) Bars. The company is also involved in trading products like Galvanized Wire, Binding Wire, Roof Nail and other allied items.

**Financial Indicators (Standalone)**

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Provisional
Total Operating Income (in NPR Mn.)	1,409	1,736	2,099
EBITDA Margin (%)	3.13	5.67	1.41
Interest Coverage Ratio (x)	0.63	2.49	0.61
Current Ratio (x)	0.96	1.05	1.02
Overall Gearing Ratio (x)	8.67	4.23	2.95

\* 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	8.40	IRN B+
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	730.00	IRN A4
Non Fund Based Bank Facilities- Letter of Credit (LC)	Short Term	630.00	IRN A4
<b>Total Facilities</b>		<b>1,368.40</b>	

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**About Infomerics Credit Rating Nepal Limited:**

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