

PRESS RELEASE

MAINAWATI STEEL INDUSTRIES LIMITED

July 2023

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term/ Short Term Bank Facilities	6,225.00	IRN BBB-/ A3	Assigned

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal (Infomerics Nepal) has assigned the bank loan rating of IRN BBB-/ A3 (Triple B Minus/ A Three) to the combined long term and short term bank facilities of NPR 6,225.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Mainawati Steel Industries Limited (MSIL) derive strength from MSIL's established and long track record of operation in the steel industry, with extensively experienced promoters and a capable management team. The company also benefits from an average operational and financial profile and has shown improving capacity utilization due to tender sales. The rating also considers MSIL's diversified product portfolio, established brand recognition, and usability across various industries. Its wide market presence across the country and proximity to the Indian border provide cost saving advantages in freight. Additionally, government support for production-based industries, and a healthy demand outlook for steel products contribute positively to the rating. However, the rating is also constrained by MSIL's elongated working capital cycle, volatility in raw material prices, exposure to regulatory risk, exposure to foreign exchange fluctuation risk, and intense competition present in the steel industry. Going forward, an improvement in the capital structure, along with the improvement in debt protection metrics and momentous growth in the scale of business with improvement in profitability metrics, will remain a rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established track record of operations with experienced directors and management team

MSIL has an operational track record of around three decades in manufacturing of various steel products. Furthermore, MSIL is a part of Vishal Group and draws its strength from promoters who have strong presence in Nepal through their group entities in various industries such as automobiles, agriculture, banking & finance, education, hospitality, manufacturing, among others. MSIL is managed by a two-member board of directors with extensive experience in the industry. Mr. Trilok Chand Agrawal, Chairman, has over four decades of experience in trade and industry. He also holds a directorial position at NIC Asia Bank Limited, which is rated IRN A-(Is). Similarly, Mr. Tulsi Ram Agrawal, Director, also possess over four decades of experience in trade and industry and serves as Chairman at NIC Asia Bank Limited. Additionally, the board is supported by a team of technically qualified and experienced professionals to efficiently operate the regular business.

Average operational & financial risk profile

Over the past three years, ending in FY22, MSIL faced challenges with an 8-10% decline in total operating income due to reduced demand in the steel industry, mainly caused by the aftermath of the COVID-19 pandemic. However, the company managed to maintain a relatively stable EBITDA margin of ~10-12% during this period, except for FY21, when it reported a higher margin of ~14%. In the first ten months of FY23 (10MFY23), MSIL's operations showed significant improvement, with an annualized growth of ~36%. This growth was primarily driven by a tender received from Nepal Electricity Authority (NEA) for the supply of tubular/telescopic poles, which increased capacity utilization to approximately 41%, up from 31% in FY22.

The capital structure of MSIL improved by mid-July 2022, achieved by paying off the short-term loan using maturing Fixed Deposits (FDs). Consequently, the overall gearing ratio improved to 0.75x compared to 1.28x in FY21. However, the gearing ratio increased to 1.38x in 10MFY23 due to an increase in working capital loans to fund its increased receivables. Nevertheless, the flexibility in creditor terms provides some comfort. The debt protection and interest coverage metrics have been healthy at 3.19x and 4.62x in FY22. However, they are expected to slightly moderate in FY23.

Diversified product portfolio having usability to wide range of industries

MSIL has diversified portfolio of iron & steel products that have varied usages across various industries. The company manufactures MS Black Pipes, MS Sheets, Tubular/ Telescopic Poles, GI Pipes, Structures, Shutter Profile, among others, 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

MSIL sells its products under an established brand name of “MSI”. 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, MSIL sells its products across the country and are mostly through direct sales and a tender sale with minimal export.

Proximity to Indian border leading to savings in freight cost and generating export sales

The plant site's proximity to the Indo-Nepal border has resulted in savings in freight costs since the majority of raw materials required are imported. Additionally, MSIL also exports its products to India and the factory's proximity to the Indian border has facilitated exports 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 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 monthly. Further, 30% rebate is given on income tax for companies employing 1,000 or more workers during a financial year. Also, the GoN¹ has allocated ~NPR 302 Bn for FY24 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

Elongated working capital cycle

As of mid-July 2022, the gross current assets for MSIL ranged between 200 to 250 days. This was primarily influenced by a moderate debtors' collection period of ~80-90 days and a relatively higher inventory turnover period of ~140-160 days. The company generally provides credit terms of 60-90 days to most customers as a strategic response to intense competition in the industry. However, being an import-oriented company, MSIL is required to maintain inventories for which the company has to pay through a letter of credit, resulting in lower creditor days. In the first 10MFY23, the debtor's collection period has further increased beyond 100 days, although there has been a slight moderation in inventory days. However, in recent year, due to the increase in tender orders from NEA, the imports of MSIL have drastically reduced. Consequently, there has been a higher emphasis on domestic purchases, resulting in increased creditor days. This shift in procurement strategy has partially supported the working capital cycle in recent years.

¹ Government of Nepal

Volatility in raw material price and exposure to regulatory risk

The major raw materials for MSIL are HR/CR/GP Coils, zinc ingots, rods, angle etc., which are mostly imported from India. The prices for these raw materials are market-linked and set periodically, exposing the company to volatility in raw material prices, which directly impacts its profitability margins. Normally, the cost of raw materials contributes to ~70-80% of the company's TOI, resulting in a significant impact on profitability with any changes in price. MSIL is also partially constrained by regulatory risk arising from policy changes in both Nepal and India. Hence, the regulatory front is expected to impact the performance of companies like MSIL going forward.

Exposure to foreign exchange fluctuation risk and intense competition present in the steel industry

MSIL is exposed to foreign exchange fluctuation risks due to a currency mismatch, where over 80% of its raw materials are imported in USD while the finished goods are realized in the local currency. MSIL normally uses Letter of Credit, which exposes the company to forex risk. 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 for iron and steel products is considered cyclical, and the 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 shrunk the net realization price of iron and steel products, resulting in lower operating revenue and profits. The manufacturers of steel construction materials are essentially price-takers in the market, which directly exposes their cash flows and profitability to volatility in steel prices.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Mainawati Steel Industries Private Limited was incorporated in May 1995 and recently, in July 2023, converted to Mainawati Steel Industries Limited (MSIL). It has a manufacturing plant located in Duhabi of Sunsari District in Nepal, specializing in the production of various pole, steel and sheet products. The company has a total installed capacity of 111,900 MTPA. MSIL is a part of the Vishal group, where Mr. Trilok Chand Agrawal is the chairman holding ~17% stake in the company.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	10MFY23
	Audited			Provisional
Total Operating Income (in NPR Mn.)	5,240	4,658	4,298	4,923
EBITDA Margin (%)	11.14	14.00	12.19	10.31
Interest Coverage Ratio (x)	3.61	10.29	4.62	3.61
Current Ratio (x)	1.35	1.18	2.29	1.33
Overall Gearing Ratio (x)	1.96	1.28	0.75	1.38

Earnings before Interest Tax Depreciation Amortization (EBITDA)

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	(442.66)	IRN BBB-
Fund Based Bank Facilities- Permanent Working Capital Loan (Proposed)	Long Term	(1,750.00)	IRN BBB-

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities-Working Capital Loan	Short Term	(1,625.00)	IRN A3
Non Fund Based Bank Facilities- LC/BG	Short Term	(5,480.00)	IRN A3
Total Facilities		6,225.00*	

LC= Letter of Credit; BG= Bank Guarantee

*The total combined limits including term loan shall not exceed NPR 6,225.00 Mn at any time.

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About Infomerics Credit Rating Nepal Limited:

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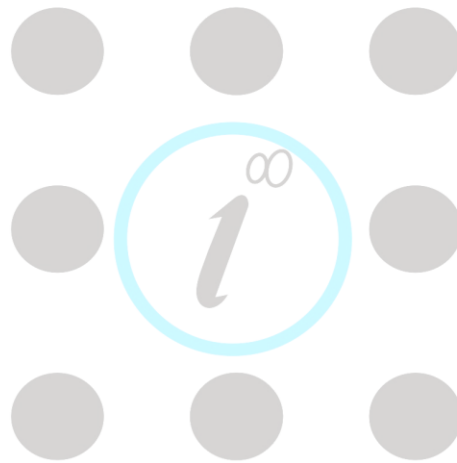
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Infomerics Credit Rating Nepal Limited

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