

PRESS RELEASE

STEEL WOOD ENTERPRISES PRIVATE LIMITED

November 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	362.65	IRN B+	Assigned
Short Term Bank Facilities	537.35	IRN A4	Assigned
Total	900.00		

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 362.65 Mn and short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 537.35 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Steel Wood Enterprises Private Limited (SWEPL) derive strength from its established track record of operation with experienced promoters and management team. Additionally, diversified product portfolio along with minimal concentration on import contribute positively to the ratings. However, these rating strengths are partially offset by SWEPL's large turnover with low operating margins, leveraged capital structure along with high level of working capital intensity and exposure to regulatory risk. The rating also notes SWEPL's existence in fragmented industry with cyclical nature. Going forward, the ability of SWEPL to improve operating margins while efficiently managing its working capital requirements will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established track record of operation with experienced promoter's and management personnel

SWEPL has been in operation for more than a decade in trading of various construction materials and hardware products. Its promoters Mr. Sunil Kumar Rungta and Mr. Anoj Rungta have extensive experience of more than 20 years in the trading industry. The promoters also have other trading units namely Steel Wood, Vishal Trading and Vishal Hardware. Furthermore, the promoters are further supported by well experienced management personnel.

Diversified product portfolio along with minimal concentration on import

SWEPL operates through its six branches spreading in 4 different provinces in Nepal. It supplies its consumers with diversified product range of construction related products like TMT rods, HR pipe, HR sheet, among others. In addition, SWEPL procured its raw material requirements predominantly from domestic market with imports accounting for only ~0.37% in FY22 and ~0.15% in FY23.

Key Rating Weaknesses

Large turnover with low operating margins

Despite achieving operational revenue of NPR 2,073 Mn in FY21 and NPR 2,042 in FY22 the company's TOI steeply declined by ~35% to NPR 1,326 Mn in FY23. As a trading company, SWEPL's operations is characterized by high TOI with relatively lower profitability margins. Nevertheless, the EBITDA margin of

SWEPL has been improved to 8.65% in FY23 vis-à-vis 5.72% in FY22 and 5.73% in FY21. Thus, despite the decline in SWEPL's TOI in FY23, the improvement in EBITDA margins has resulted in a relatively marginal decline of ~2% in the absolute EBITDA of the company.

Leveraged capital structure further aggravated by high level of working capital intensity

The capital structure of SWEPL remains highly leveraged, mainly due to the working capital loans taken to manage increased receivables. Consequently, the overall gearing ratio of the company stands at a high level of around 3.53x in FY22 and 3.27x in FY23. SWEPL's working capital requirements have significantly increased owing to sluggish demand for construction materials and economic slowdown leading to delayed fund realization. Furthermore, due to sluggish demand and intense competition within the industry, SWEPL has adopted more liberal credit policies in the recent years. This shift is evident in the company's extended operating cycle, which increased to 219 days in FY23 vis-à-vis 139 days in FY22 and 96 days in FY21.

Exposure to regulatory risk

SWEPL's primary source of revenue is the demand for construction materials, with construction companies being its major clients. The demand for construction materials is influenced by both Government Capital Expenditure and private sector demand. However, in recent years, there has been a slowdown in Government Capital Expenditure, affecting the overall demand for construction materials. As a result of these challenges, SWEPL have seen a decline in their revenue and have had to extend credit periods to accommodate customer demands. Moreover, the Nepal Rastra Bank's (NRB's) recent directives on Working Capital Loans that links revenue and working capital loan limits has led to working capital loans being converted into term loans (permanent working capital loans). Going forward, the ability of SWEPL to meet its debt obligations in a timely manner remains a key rating sensitivity.

Fragmented industry with cyclical nature

Cyclical nature of the construction products related industry creates uncertainty over demand and cash cycles for SWEPL. This could impact the company's revenue and profit margins. Volatility in cash flow due to cyclicity in the cash cycle could pose challenges, especially during the period of low demand. Furthermore, the fragmented industry is characterized by intense competition due to the presence of several organised/unorganised players aided by low entry barrier, low technology and capital requirement.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Jagdamba Bikri Kendra was incorporated on November 03, 2010, company's name was later changed to Steel Wood Enterprises Private Limited (SWEPL). SWEPL is a family-owned business with Mr. Sunil Kumar Rungta and Mr. Anoj Rungta being equal shareholders. The main purpose of the company is to trade construction materials and hardware goods throughout the country.

Financial Indicators (Standalone)

For the year ended * As on	FY21	FY22	FY23
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	2,073	2,042	1,326
EBITDA Margin (%)	5.73	5.72	8.65
Interest Coverage Ratio (x)	2.24	1.31	1.08
Current Ratio (x)	0.95	1.02	1.02

For the year ended * As on	FY21	FY22	FY23
	Audited	Audited	Unaudited
Overall Gearing Ratio (x)	6.39	3.53	3.27

Earnings before Interest Tax Depreciation Amortization (EBITDA)

*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	Long Term	120.65	IRN B+
Fund Based Bank Facilities- Permanent Working Capital Loan	Long Term	242.00	IRN B+
Fund Based Bank Facilities- Working Capital Loan	Short Term	435.30	IRN A4
Fund Based Bank Facilities- Working Capital Loan (Proposed)	Short Term	102.05	IRN A4
Non Fund Based Bank Facilities- LC within DL	Short Term	(200.00)	IRN A4
Total Facilities		900.00	

LC= Letter of credit; DL= Demand Loan

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About Infomerics Credit Rating Nepal Limited:

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