

PRESS RELEASE

HULAS INFRA LIMITED

December 2023

Ratings

Instrument/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,717.00	IRN BB	Assigned
Short Term Bank Facilities	1,102.00	IRN A4	Assigned
Total	2,819.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB (Double B) to the long term bank facilities of NPR 1,717.00 Mn and short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 1,102.00 Mn.

Detailed Rationale

The ratings assigned to Hulas Infra Limited derive comfort from its strong promoter group supported by an experienced management team that has a long track record in the steel industry. HIL exhibits operating efficiency through backward integration and has adequate supply arrangements for its key raw material inputs with M/s Hulas Iron Industries Limited (HIIL). The rating also takes into account the company's sizeable order in hands relative to its current scale of operations and the strategic location of the plant. These rating strengths, however, are partially offset by implementation & stabilization risk associated with the currently ongoing capacity enhancement. The rating also factors the working capital intensive nature of business operations, low capacity utilization, exposure to volatility in input prices and regulatory risks. Going forward, the ability of the company to ramp up its operation with timely realization of envisaged benefits from the enhanced project while improving its capacity utilization and managing its raw material price fluctuation remain crucial.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoter support and long track record in steel industry

Hulas Group boasts an operational track record spanning approximately three- four decades, specializing in the manufacturing of diverse steel products. The directors of HIL possess extensive experience of nearly 2-3 decades in the industry as a whole. Mr. Chandra Kumar Golchha, Chairman, brings his expertise in trade and industry of more than three decades. Furthermore, the other directors of the company have extensive experience in trade and industry.

Synergies from backward integration with group company and establish brand name

The strategic arrangement between HIL and its sister company, Hulas Iron Industries Limited (HIIL), yields significant synergies marked by their close physical proximity and integrated operations. HIIL is involved in producing iron and steel products such as HR sheets, HR slits, CR clits, hot rolled plates etc. These outputs of HIIL are among the key raw material requirements of HIL. In FY23, ~82% of HIL's raw material requirements were fulfilled by HIIL while extending favorable credit periods. Additionally, the well-established group profile, particularly within the steel industry, coupled with robust corporate relations, has enabled the company to differentiate itself from its competitors and secure orders especially for its PEB segment.

Adequate order book position

Despite its initial years of operations, HIL has been able to improve its revenue base over the years and increase its operational scale. Currently, HIL is involved in the fabrication and setting up of Pre-Engineered Buildings (PEB). The growth of HIL has been aided by the increasing demand for PEB structures especially for commercial buildings, factories and other permanent and semi-permanent structures. The company has a sizeable pending order book position of ~NPR 541 Mn which stands at ~2 times of its operating income of FY23.

Long run demand prospects

Despite the ongoing slowdown in economic activities and tightening of liquidity due to slow credit growth of the banking sector resulting in the weak to moderate outlook for the construction sector; the longer-term outlook for the sector remains comforted by significant infrastructural gap in the country, which benefits the overall demand prospects of the iron and steel industry. Furthermore, Pre-Engineered Buildings (PEB) segment has seen a growing demand from the private sector as well due to its cost effectiveness, durability and efficiency. Furthermore, going forward the demand prospects for HIL's hot dip galvanizing unit also remains positive in consideration of its wide application in various sectors such as hydropower, highway side guards, electric poles, telecom towers, bridges etc.

Key Rating Weaknesses

Exposure to project implementation risk with subsequent stabilization risk

The company is in process of commissioning its plant and machinery with view of expanding to other emerging segments like hot dip galvanizing unit, HR galvanizing unit, pre-galvanized purlins, pre-galvanized pipes, HR coils etc. projected cost for the project is NPR 1,680 Mn and the project is near its completion with financial progress of ~81%. While a substantial portion of the capital expenditure has been completed, the company still faces risks associated with project implementation and satisfactory operations thereafter. Thus, going forward, the timely realization of the envisaged benefits from the new units remains a key monitorable.

Input price volatility risk with exposure to regulatory risk

The cost of raw materials for HIL is susceptible to volatility, primarily due to the global linkages of steel items. These fluctuations are transferred to the company through its domestic suppliers, and certain crucial raw materials are directly imported from India. These risks are further heightened since the cost of raw materials corresponds to 70-75% of the total operating income. Hence, any significant changes in pricing of its raw materials would have a bearing on secondary steel manufacturers like HIL.

Low Capacity Utilization

The capacity utilization of the company has been on lower side with an average reported capacity utilization of ~18% during FY23. However, in the PEB segment, capacity utilization is anticipated to gradually improve as the company establishes its presence. Moving forward, it is crucial for the company to achieve satisfactory capacity utilization aligned with revenue growth, particularly considering its ongoing commissioning of plant and machinery for other emerging units.

Working Capital intensive nature of operations

The operations of the company are working capital intensive in nature. HIL is primarily involved in the fabrication and erection of Pre Engineered Buildings (PEBs). The overall process involves finalization of design and layouts, manufacturing of components and the on-site assembly of the components. Thus, the overall construction of PEBs is time intensive and as the PEB structure requires a wide range of inventory to ensure smooth operations. Thus, the gross current assets (GCA) of the company was 797 days in FY23. This has led to high reliance of the company on the bank finance for working capital needs. The average utilization of fund-based working capital limit against drawing power was ~96% during FY23.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Hulas Infra was initially incorporated as a private limited company on July 19, 2011 and subsequently converted into a limited company on July 16, 2023. Hulas Infra Limited (HIL) is a secondary steel producer and is involved in the designing, fabrication and commencement of Pre- Engineered Buildings (PEB) along with the sales of shutter patti. HIL has an annual installed capacity of 8,100 MTPA for its Mid-Steel (MS) unit and the company is in the process of commencing its Galvanized Iron (GI) structure unit with installed capacity of 4,500 MTPA and C-Z Purlin unit with installed capacity of 2,000 MTPA.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	36	116	268
EBITDA Margin (%)	30.02	22.57	20.97
Interest Coverage Ratio (x)	1.93	1.85	1.41
Current Ratio (x)	1.29	1.12	1.10
Overall Gearing Ratio (x)	2.35	4.33	2.69

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	1,304.00	IRN BB
Fund Based Bank Facilities-Permanent Working Capital	Long Term	413.00	IRN BB
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	462.00	IRN A4
Non Fund based Bank Facilities- LC/BG ¹	Short Term	600.00	IRN A4
Non Fund based Bank Facilities- LC/BG (Proposed)	Short Term	40.00	IRN A4
Total Facilities		2,819.00	

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About Infomerics Credit Rating Nepal Limited:

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