

PRESS RELEASE

HULAS IRON INDUSTRIES LIMITED

February 2024

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,212.53	IRN BB	Assigned
Short Term Bank Facilities	4,370.00	IRN A4	Assigned
Total	5,582.53		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal (Infomerics Nepal) has assigned the bank loan rating of IRN BB (Double B) to the long-term bank facilities of NPR 1,212.53 Mn and IRN A4 (A Four) to the short-term bank facilities of NPR 4,370 Mn.

Detailed Rationale

The rating assigned to the bank facilities of Hulas Iron Industries Limited (HIIL) derives comfort from its experienced promoter/ group, “Hulas Group” – a conglomerate business within the Golchha Group, having an established presence in various lines of business, primarily in trading and manufacturing units. The ratings also take in to account the strategic location of its manufacturing unit, as well as its extensive distribution and marketing network comprising over 250 dealers throughout Nepal. Additionally, the Government support for production-based industries, and a positive demand outlook for steel products are contributing factors to the rating. However, the ratings are constrained by the company’s short track record of operations (less than 3 years, partial operation from FY21) and its high overall gearing ratio. Further, HIIL’s elongated working capital cycle, volatility in raw material prices, exposure to regulatory risk, exposure to foreign exchange fluctuation risk, and intense competition and cyclicity present in the steel industry also remains a rating concern. Going forward, an improvement in the capital structure, along with the improvement in debt protection metrics with rationalization of debt coupled with momentous growth in the scale of business and profitability margins, will remain a rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter profile and strong group

HIIL’s promoters have significant experience and an established track record in a diverse range of businesses, primarily in trading and manufacturing units. The entire stake, is held by the Hulas Group, represented by C.K Golchha and his family. Mr. Golchha, the major stakeholder (>90%), brings with him more than 35 years of experience and expertise, particularly in the steel industry. Their decades of experience and expertise in the industry are expected to enhance their understanding of market intricacies and facilitate positive connections with suppliers and customers.

Strategic location and diversified portfolio along with established brand recognition

HIIL’s plant is located in Birgunj of Parsa District. Its proximity to the Indo-Nepal border has led to cost savings in freight, as the majority of required raw materials are imported. Also, HIIL has diversified portfolio of iron & steel products that have varied usages across various industries. The company manufactures HR & CR Pipes, CTL Sheets, GI Wires, Torkari wires, PC Wires, Nails, Structures, among others, which are

produced in various variants as per the demand in the market. Additionally, the established “Hulas” brand in the Nepalese industry has supported the revenue profile and operating margin for HIIL. 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 its presence in the Nepalese market with healthy turnover.

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 FY24 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 1000 or more workers during a financial year. Also, GoN has allocated NPR 302 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

Short track record of operations

HIIL started its commercial operation in FY21 and, therefore, has an operational track record of less than 3 years. Nevertheless, the revenue has continued to improve, reaching its sales of NPR 3,128 Mn in FY23, with the stable operating margins of ~7%. This was supported by the improving demand and a decline in the price of major raw materials globally. Given the short track record, the company's sales pattern has yet to stabilize, and its ability to achieve sustainable growth will remain crucial.

Moderate financial risk profile

The company's financial profile remains moderate given its short track record (despite growth), low but improving cash accruals, high working capital intensity leading to a high reliance on debt, resulting in a high overall gearing of 3.17x and stretched long term debt to EBITDA of 5.88x as of mid-July 2023 which improved from 3.76x and 6.40x in FY22 respectively. Similarly, the interest coverage ratio remains modest at 0.86x in FY23 due to increase in interest expense from higher utilization of working capital loan albeit decrease in long term loan. Additionally, as of mid-July 2023, the gross current assets for HIIL ranged ~257 days. This was primarily influenced by high inventory holding period above 118 days and a stretched collection period above 139 days, leading to an elongated working capital cycle. From rating point of view, the company's ability to streamline its working capital intensity and improve its debt protection metrics with rationalization of debt will remain key monitorable factors.

Volatility in raw material price and exposure to regulatory risk

The major raw materials for HIIL are HR/CR Coils, Sheets, Zinc ingots, Wire etc., which are mostly imported from India, Indonesia, Hong Kong among others. 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. HIIL 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 HIIL going forward.

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

HIIL is exposed to foreign exchange fluctuation risks due to a currency mismatch, where majority of its raw materials are imported in USD while the finished goods are realized in the local currency. HIIL normally uses TR-USD loans to finance the import of raw materials, which exposes the company to forex risk amid partial hedging of its dollar denominated purchase. 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 due to the entry of new players, as well as the substantial capacity expansion by the existing players, could impact the net realization price of iron and steel products, affecting revenues 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:

Hulas Iron Industries Private Limited was incorporated in April 2017 and recently, in July 16, 2023, it converted to a Public Limited Company. It operates a manufacturing plant located in Birgunj in Parsa District of Nepal, specializing in the production of various pipes and sheets products. Commercial operation commenced during FY21 and has been in full operation since FY22. The company has a total installed capacity of 105,765 MTPA. HIIL is a part of the Hulas group, which maintains a significant presence in Nepal through its related companies in various industries.

Financial Indicators (Standalone)

For the year ended* As on	FY21(A)	FY22 (A)	FY23 (A)
Total Operating Income (in NPR Mn.)	145	3,043	3,128
EBITDA Margin (%)	6.59	6.95	6.52
Interest Coverage Ratio (x)	4.32	1.41	0.86
Current Ratio (x)	1.16	1.06	0.91
Overall Gearing Ratio (x)	3.22	3.78	3.17
DSCR (x)	6.19	1.29	1.23

Earnings before Interest Tax Depreciation Amortization (EBITDA); Debt Service Coverage Ratio (DSCR);

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	1,212.53	IRN BB
Fund Based Bank Facilities-Working Capital Loan*	Short Term	(3,810.00)	IRN A4
Non Fund Based Bank Facilities- LC/BG*	Short Term	4,110.00	IRN A4
Total Facilities		5,582.53	

*The total working capital loan limits, including both fund-based and non-fund-based limits, shall not exceed NPR 4,370 million at any point of time.

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About Infomerics Credit Rating Nepal Limited:

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