

Press Release

AMBE STEELS LIMITED

July 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BBB- (Is)	Assigned
Long Term Bank Facilities	2,390.65	IRN BBB-	Assigned
Short Term Bank Facilities	4,048.00	IRN A3	Assigned
TOTAL	6,438.65		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BBB- (Is) [Triple B Minus (Issuer)]. Issuer with this rating is considered to have a moderate degree of safety regarding timely servicing of financial obligations. Such issuers carry moderate credit risk. Infomerics Nepal has also assigned the rating of IRN BBB- (Triple B Minus) to the long-term bank facilities of NPR 2,390.65 Mn and the rating of IRN A3 (A Three) to the short-term bank facilities of NPR 4,048.00 Mn.

Detailed Rationale

The ratings assigned to Ambe Steels Limited (ASL) and its bank facilities derive strength from its experienced promoter group – Ambe Group, supported by an experienced management team with its established track record in steel and cement industry and established brand recognition. The company benefits from operating efficiency due to backward integration in billet production, which is a key component of steel production. The ratings also factor in the moderate financial profile marked by improving profitability margins.

However, these rating strengths are constrained by its moderately leveraged capital structure, working capital intensive nature of business, volatility in raw material price and exposure to regulatory risk. Furthermore, ASL is exposed to foreign exchange fluctuation risk, as well as intense competition in the industry. Going forward, the company's ability to scale up its operations, improve liquidity and managing working capital will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoter group with experienced directors and management team

ASL is promoted by Ambe Group, which runs established businesses in the country. The group encompasses companies in diverse fields related to manufacture of cement, steel, among others. Operational synergies are expected, with the group's involvement in steel and cement industry (Shaurya Cement Industries Limited [[IRN BBB-/A3](#)], Riddhi Siddhi Cement Limited [[IRN BBB-/A3](#)], and Jay Ambe Steels Limited), mainly in the area of supply and distribution channel. ASL is managed by three-member board of directors who have wide experience in manufacturing sector. Mr. Shovakar Neupane, Chairman, has over four decades of experience in manufacturing and trading business, and is a director of Jay Ambe Steels Limited, Riddhi Siddhi Cement Industries Limited, Ambe Cement Private Limited, and others. Mr. Purna Bhadra Poudyal also possess more than two decades of experience as directors in different manufacturing and trading business such as Jay Ambe Steels Limited, and Ambe Cement Private Limited. Furthermore, the experienced and qualified pool of top management is again expected to support the business risk profile going forward.

Established brand recognition and Backward Integration in billet production being a key component of steel production

ASL distributes its products under multiple brand names across Nepal, including brands like "AMBE TMT" and "AMBE GI". These well recognized brands aids in steady demand and distinguish ASL's products from those of competitors. This strategic branding has mitigated some of the price volatility caused by competition and maintained ASL's market presence in the Nepal. Furthermore, ASL distributes its products throughout the country through an established dealer network of 655 distributors.

ASL also produces billets, a vital semi-finished steel product required for manufacturing steel. It has its own billet manufacturing plant with a production capacity of 80,000 MTPA in FY23, increased to 120,000 MTPA in 10MFY24. By vertically integrating its operations to include billet production, ASL not only enhances its cost efficiencies but also reduces reliance on external suppliers for the crucial semi-finished steel product. The company also sells billets, composing ~5% of total sale in FY23 increasing from 0.73% in FY22. The capacity utilization is also high regarding production of billets with ~95% in FY23 utilization vis-à-vis ~75% in FY22. The strategic move also positions the company favorably compared to its competitors amidst market fluctuations and supply chain challenges.

Moderate financial risk profile

ASL exhibited a growing trend with CAGR of ~7% over the past four years (FY19 to FY22), however declined by ~23% in FY23 mainly due to decline in sale of TMT rods amid lower construction activities within the country. ASL recorded TOI of NPR 5,039 Mn during 9MFY24 (11MFY24: NPR 7,169 Mn). The revenue generated consists mainly of sales of TMT rod which accounts for ~77% of total operating revenue in FY23 vis-à-vis ~79% in FY22. Furthermore, EBITDA margin of the company stood moderate at 6.43% in FY23 increasing from 4.91% in FY22 which further increased to 7.59% during 9MFY24, mainly attributable to management effort in cost management practices.

Key Rating Weaknesses

Moderately leveraged capital structure

The capital structure of the company stood moderate with the overall gearing ratio of 2.36x as on mid-July 2023 slightly improved from 2.86x as on mid-July 2022. However, the capex for new 15T furnace increased the long term loan in 9MFY24, due to which gearing ratio increased to 2.80x as on Mid-April 2024. Interest coverage ratio stood moderate at 1.21x in FY23 vis-à-vis 1.27x in FY22 (9MFY24: 1.14x). The decline is mainly on account of high interest expenses due to capex in FY23 and 9MFY24. However, the capital structure and debt service coverage indicators are expected to improve with the repayment of debts using the proceeds from IPO issuance.

Working capital intensive nature of business

ASL's operating cycle stood at 186 days in FY23, increased from 145 days in FY22 primarily due to a longer inventory holding period of 111 days in FY23, vis-à-vis 70 days in FY22. The higher inventory holding is mainly due to company's reliance on imported raw materials requiring to maintain adequate inventory, as well as maintain finished goods to meet immediate market demands, resulting in high reliance on working capital loans for funding its operations. ASL's liquidity profile remains stretched as reflected by high working capital loan utilization at ~76% during last 12 months' period ended mid-July 2023, further increased to ~81% during 9MFY24.

Volatility in raw material price and exposure to regulatory risk

ASL primarily imports pig iron and sponge iron from India. The prices of these raw materials being linked to the market and set on a periodic basis exposes the company to price volatility that directly impacts profitability. Raw material costs have averaged about 84% of the total operating income from FY19 to FY23, making profitability highly sensitive to price changes. Additionally, ASL faces regulatory risks from policies in both Nepal and India. In the recent GoN budget for FY25, import duty on sponge iron increased from 1% to 2.5%, and scrap and pig iron now face a 1% import duty,

up from Nil.

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

ASL is exposed to foreign exchange fluctuation risk due to the mismatch in currency, where more than 50% of its raw materials are imported (in USD) while realization of the finished goods are in local currency. ASL normally uses dollar Trust Receipt Loan and LC at usance, exposing the company to a forex risk. The company currently has no hedging practices in place to reduce foreign exchange losses. As per the management, they import goods from India when the rates are cheaper in order to minimize loss. 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 of iron & steel products is considered cyclical and with 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 affected the net realization price of the iron and steel products resulting in lower operating revenue and profits. The producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

About the Company:

Ambe Steels Private Limited is a part of Ambe Group, incorporated on August 26, 2007 which later converted into Ambe Steels Limited (ASL) on October 19, 2023. It has plant situated in Gonaha VDC ward no. 6, Bhairahawa, Nepal for manufacturing of TMT Steel Bars (144,000 MTPA), Billets (120,000 MTPA), GI wires (14,400 MTPA), and Gabion box (3,000,000 sq. m.). Mr. Shovakar Neupane (24%), Mr. Shivaj Neupane (18%), Sajjan Agrawal (12.50%), and Ms. Shivani Neupane (11%) are the major shareholders as on May, 2024.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23	9MFY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	9,253	10,878	8,348	5,039
EBITDA Margin (%)	7.20	4.91	6.43	7.59
Interest Coverage Ratio (x)	2.28	1.27	1.21	1.14
Total Debt/ EBITDA (x)	5.98	7.63	7.29	9.16
Current Ratio (x)	1.01	1.12	1.12	1.26
Overall Gearing Ratio (x)	2.74	2.83	2.36	2.80

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	2,390.65	IRN BBB-
Fund Based Bank Facilities- Short Term Loan	Short Term	114.00	IRN A3
Non-Fund Based Bank Facilities- Short Term Loan	Short Term	3,934.00	IRN A3
Total Facilities		6,438.65	



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About Infomerics Credit Rating Nepal Limited:

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