

PRESS RELEASE

MAINAWATI STEEL INDUSTRIES LIMITED

July 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term/Short Term Bank Facilities	6,525.00 (Enhanced from 6,225.00)	IRN BBB- /A3	Reaffirmed
TOTAL	6,525.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed ratings assigned to the long-term facilities/short term facilities of NPR 6,525.00 at IRN BBB-/A3 (Triple B Minus/A Three).

Detailed Rationale

The reaffirmation of the ratings assigned to bank facilities of Mainawati Steel Industries Limited (MSIL) continue to derive strength from its 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 albeit declined profitability margins. The ratings also consider 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 ratings are 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 rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established and long track record of operations with experienced promoters and management team in the steel industry

MSIL boasts an operational track record spanning approximately three decades, specializing in the manufacturing of diverse steel products. The company derives its strength from its affiliation with the Vishal Group, which has a strong presence in Nepal across multiple industries such as steel, cement, polymers, trading, hospitality, and insurance. The directors of MSIL possess extensive experience of nearly five decades in the industry as a whole. Mr. Trilok Chanda Agrawal, the Chairman, and Mr. Tulsi Ram Agrawal, a director, bring their expertise in trade and industry. Both directors also hold the position of Vice Chairman in the Vishal Group and serve as Directors 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. Additionally, they hold directorships in various other companies within the group.

Average financial risk profile albeit declined in profitability ratio

In FY23, the company's Total Operating Income (TOI) grew by ~40% to NPR 6,035 Mn. 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 ~49%, up from 31% in FY22 (~32%

in 11MFY24). However, EBITDA margins decreased from ~12.19% in FY22 to ~9.64% in FY23 and further to ~7.19% in 11MFY24 due to competitive pricing as well as decline in overall demand for steel products. The interest coverage ratio declined from 4.62x in FY22 to 3.30x in FY23 and 2.10x in 11MFY24. Additionally, the tangible net worth declined to ~NPR 1,617 Mn in FY23 and further to ~NPR 1,106 Mn in 11MFY24 due to dividend pay-out to shareholders. As a result, overall gearing ratio slightly increased to 0.80x at the end of FY23 (1.70x as on mid-June 2024) from 0.67x at the end of FY22, nevertheless remains comfortable.

Diversified Products and Robust Market Presence

MSIL boasts a diversified product portfolio, offering a wide range of iron and steel products such as MS Black Pipe, MS Sheet, Tubular/Telescopic Poles, GI Pipe, structures, angles, shutter profiles, coils, sheets, and various wire products. These items are designed to meet the diverse needs of multiple industries, reducing dependency on any single sector and broadening the company's market reach. Additionally, MSIL's strong brand recognition under the "MSI" name across Nepal ensures consistent demand and product differentiation, mitigating competitive price volatility. This strategic approach has secured a significant market presence and healthy turnover, primarily through direct sales channels nationwide.

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

The plant site is close to Indo-Nepal borders which has led to saving in freight cost as the majority of raw materials requirements are imported. Further, MSIL has also been exporting its products, though minimum and factory's proximity to Indian border has eased the export as well.

Government support for production-based industry and demand outlook of Steel Industries

Nepal is a growing economy and is continuously focusing on development of various sectors. The budget for FY25 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, GoN has allocated NPR 352 Bn in FY25 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

Working capital intensive nature of business

MSIL utilized working capital loans at approximately 72% during the last 11-month period, ending in mid-June 2024. This indicates the company relies on working capital loans to fund its operations. The company's operations are considered to be working capital-intensive. MSIL operates in a highly competitive steel industry with numerous players, leading to extended credit terms provided to customers. Additionally, as the company is import-oriented, it has to maintain inventories and make payments through letter of credit at sight, resulting in lower creditor days. In FY23, MSIL managed to reduce its operating cycle to 148 days from 225 days in FY22, however, in 11MFY24, it has bounced back to 250 days. This prolonged operating cycle was primarily due to a high inventory period and collection period of approximately 158 and 115 days respectively. The competitive nature of industry has resulted high operating cycle leading to high reliance of the company on the bank finance for working capital needs.

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:

[Bank Loan Rating Methodology](#)

Past Rating Rationale:

[Mainawati Steel Industries Limited: Bank Facilities Rating Assigned](#)

About the Company:

Mainawati Steel Industries Private Limited was incorporated in May 1995 and, 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 113,900 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	FY21	FY22	FY23	11MFY24
	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn)	4,658	4,298	6,035	3,241
EBITDA Margin (%)	14.00	12.19	9.64	7.19
Interest Coverage Ratio (x)	10.29	4.62	3.30	2.10
Current Ratio (x)	1.18	2.29	1.86	1.31
Overall Gearing Ratio (x)	1.28	0.75	0.80	1.70

*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	312.00	IRN BBB-
Fund Based Bank Facilities- Permanent Working Capital Loan (Proposed)	Long Term	1,238.50	IRN BBB-
Fund Based Bank Facilities-Working Capital Loan	Short Term	3,000.00	IRN A3
Non-Fund Based Bank Facilities- LC/BG	Short Term	5,819.00	IRN A3
Total Facilities		6,525.00*	

LC= Letter of Credit; BG= Bank Guarantee

*The total combined limits including term loan shall not exceed NPR 6,525.00 Mn at any time.

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About Infomerics Credit Rating Nepal Limited:

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