PRESS RELEASE

SARBOTTAM STEELS LIMITED

April 2026

Ratings

Instrument	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB+ (Is)	Upgraded from IRN BB- (Is)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the issuer rating to IRN BB+ (Is) [Double B Plus (Issuer)] from IRN BB- (Is). Issuers with this rating are considered to have a moderate risk of default regarding timely servicing of financial obligations.

Detailed Rationale

The upgradation of the rating assigned to Sarbottam Steels Limited (SSL) primarily factors in strengthened capital structure, exhibited by improved overall gearing ratio of 1.60x as of mid-January 2026, compared to 1.75x as of mid-July 2025 and 2.42x as of mid-July 2024. Also, the rating takes into account the improving financial performance of SSL reflected by an EBITDA margin, of 8.66% in FY25 and 6.87% in 6MFY26, improving from 4.80% in FY23. Consequently, PAT margin steadily improved to 2.17% in FY25 compared to 0.07% in FY24 and net losses in prior years. The company continues to derive strength from its experienced promoter group – Saurabh Group, supported by an adept management team. The company's backward integration in billet production, which is a key component of steel production, further enhances cost efficiencies.

However, these rating strengths are constrained by company's working capital intensive nature of business, exposure to raw material price volatility, regulatory risks and foreign exchange fluctuation risk, along with intense competition in the industry. Also, the ratings factor in elevated debtors and inventory position as of mid-January 2026. Going forward, the company's ability to diversify its product range and operations, while continuing to improve its profitability margins and further improve its capital structure with efficient working capital management as well as successful issuance of IPO and effective utilization of the proceeds afterwards will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter group

SSL is part of Saurabh Group, with its strength derived from promotors' strong presence in Nepal through their group entities engaged in manufacture of steel, cement, spinning mills, tea estates, etc. Operational synergies are expected, with the group's involvement in steel and cement industry (Laxmi Steels Limited – IRN BBB (Is) & IRN A3+, Jagdamba Cement Industries Private Limited, and Sarbottam Cement Limited), particularly in supply and distribution channels. SSL is managed by five-member board of directors who have wide experience in manufacturing sector. Mr. Bishnu Prasad Neupane, Chairman, has over two decades of experience in trading and manufacturing industries. Mr. Utsav Neupane and Mrs. Mamata Sharma, Directors, possess experience in steel manufacturing business.

Improving financial profile

SSL's total operating income (TOI) stood at NPR 8,726 Mn in FY25, ~27% y-o-y increase from NPR 6,858 Mn in FY24 which consists mainly of sales of TMT rod accounting for over 90% of TOI in FY24 and FY25. EBITDA margin of the company improved to 8.66% in FY25 from 8.36% in FY24 and 4.80% in FY23 due to reduction in overhead costs. Consequently, PAT margin improved to 2.18% in FY25 from 0.07% in FY24. Moreover, Gross Cash Accruals (GCA) of the company improved to NPR

407 Mn in FY25 from NPR 174 Mn in FY24 which was negative during FY22 and FY23. During 6MFY26, the company reported TOI of NPR 4,460 Mn with EBITDA margin of 6.87% and PAT margin of 1.36%. GCA of the company during the same period stood at NPR 179 Mn. SSL's capital structure stood moderately leveraged with the overall gearing ratio of 1.60x as of mid-January 2026, improved from 1.75x as of mid-July 2025 primarily due to equity infusion resulting in improved tangible net worth base. Also, Interest coverage ratio stood moderate at 2.69x in 6MFY26 from 2.42x in FY25. Furthermore, DSCR of the company also stood moderate at 1.25x in FY25. However, Total Debt to GCA remained high at 9.07x in FY25 and 13.02x in 6MFY26, nonetheless improved from 23.89x in FY24.

Backward integration in billet production being a key component of steel production
SSL also produces billets, a vital semi-finished steel product required for manufacturing of steel. SSL has a manufacturing plant with a total production capacity of 339,590 MTPA which includes ~50% in manufacture of billets, ~48% in manufacture of TMT, and remaining for the manufacture of wires. Vertical integration of billet production is expected to improve cost efficiencies and reduces dependence on external suppliers for this critical semi-finished steel product. This strategic initiative also strengthens the company's competitive position relative to its peers, especially during market fluctuations and supply chain disruptions.

Key Rating Weaknesses

Working capital intensive nature of business
The operations of SSL remain working capital intensive in nature marked by operating cycle of 92 days in FY25 and 112 days in FY24. The average collection period of SSL stood at 53 days and 63 days respectively in FY25 and FY24, mainly due to company's extended credit terms granted to customers in the highly competitive steel industry. Additionally, the company maintained an average inventory holding of 56 days in FY25, which decreased from 70 days in FY24 and 71 days in FY23. The inventory holding of around 2 months is mainly due to the company's reliance on imported raw materials necessitating adequate inventory levels to ensure operational continuity and meet immediate market demands, resulting in high reliance on working capital loans for funding its operations. SSL's liquidity profile remains stretched as reflected by high working capital loan utilization at ~72% during 12 months' period ending mid-July 2025, which remained high with ~77% of working capital loan utilized during 6MFY26.

Volatility in raw material price and exposure to regulatory risk
SSL 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 70% of TOI over the past three years ending FY25, making profitability highly sensitive to price changes. Additionally, SSL faces regulatory risks from policies in both Nepal and India.

Intense competition in the industry
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.

Analytical Approach: Standalone

Applicable Criteria:
Issuer Rating Methodology

Past Rating Rationale:
Sarbottam Steels Limited: Bank Facilities Rating Assigned
Sarbottam Steels Limited: Issuer Rating Assigned

About the Company:
Sarbottam Steels Limited, a part of Saurabh Group, was incorporated in March 2017 as a private limited company and later converted to public limited company in July 2021. It has a plant situated in Birgunj, Parsa, Nepal. SSL is involved in manufacturing of TMT Steel Bars, Billets, and wires since FY22 with total installed capacity of 339,590 MTPA.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24	FY25	6MFY26
	Audited	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	8,934	7,753	6,858	8,726	4,460
EBITDA Margin (%)	2.54	4.80	8.36	8.66	6.87
Interest Coverage Ratio (x)	1.01	1.05	1.41	2.42	2.69
Total Debt/ EBITDA (x)	14.07	9.78	7.26	4.89	7.63
Current Ratio (x)	1.08	0.96	0.93	0.81	0.95
Overall Gearing Ratio (x)	2.10	2.49	2.42	1.75	1.60
TOL/TNW	3.16	3.27	2.62	1.98	1.73

Earnings Before Interest Tax Depreciation Amortization
Total Outside Liabilities/ Tangible Net Worth
**Classification as per Infomerics Nepal standards*

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