

Samriddhi Metalics Private Limited: [ICRANP] LB+/A4 (Assigned)

August 21, 2023

Summary of rating action

Instrument* (Amount in NPR Million)	Rated Amount	Rating Action
Long-term loan limits	1,241.0	[ICRANP] LB+ (Assigned)
Short-term loan limits	1,474.5	[ICRANP] A4 (Assigned)
Total	2,715.5	

* Instrument details are provided in Annexure-1

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the NPR 1,241 million long-term loans of Samriddhi Metalics Private Limited (SMPL). ICRA Nepal has also assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loans of NPR 1,474.5 million (including non-fund-based limits).

Rationale

The assigned rating factors in the high gearing levels of SMPL given the high proportion of debt financing in the project capex (~72%). This is likely to create pressures on debt servicing metrics of SMPL until the project stabilises. SMPL, the billet producing company, is set up as a backward integration for and located adjacent to the factory of Siddhi Laxmi Steels (SLS), a group company producing TMT bars. As such, the demand outlook and offtake of billet produced by SMPL will remain driven by the demand coming from SLS, which in turn will depend on the market demand for SLS's TMT bars. Therefore, the incremental performance of SLS amid the current sluggishness in the general economic environment will remain a key driver for the performance of SMPL. The ratings also are tempered by the limited product diversification and risks arising from regulatory changes affecting iron and steel producers in the economy.

Nonetheless, the ratings take positive note of the reputed promoters and their presence/traction across different businesses which could offer synergy to the growth and scalability of iron and steel segments under the group. ICRA Nepal also takes note of the advanced stages of development of the melting plant under SMPL which alleviates execution risk associated with the project to a large extent. Notwithstanding the weak near-to-medium term outlook for the construction sector, the good long-term demand prospects for steel products in the country and the duty protection provided by the Government of Nepal (GoN) to the domestic steel industry, remain as rating positives.

Going forward, SMPL's ability to commence timely operations and operate at adequate scale to support project stabilisation would be the key rating sensitivities.

Key rating drivers

Credit strengths

Reputed promoter group and operational synergies with group units – SMPL was created to set up a steel melting plant to serve as a backward integration for SLS, the TMT mill under Laxmi group. The group is among the reputed business houses in Nepal and has been active in the Nepalese business arena since 1973; with established track record in trading (automobile and electronics) and manufacturing (confectionary, plastics and packaging, dairy, etc). Although the group's experience in manufacturing and trading of construction material is limited, SMPL is expected to benefit from the reputation and financial strength of its major promoters, as well as from the integration of operations with Siddhi Laxmi Steels. The commissioning of SMPL's melting plant remains a positive for the long-term viability of both the units. The saving in conversion cost as well as tax benefits available for integrated steel plants is likely to augur well for the competitiveness and financial profile of SLS and SMPL going forward.

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.

Credit Challenges

High gearing level – The project cost of NPR 1,723.3 million is proposed to be ~72% debt funded. This is likely to result in a leveraged capital structure and put pressure in the debt repayment capacity during the project’s stabilisation period. This could necessitate liquidity support to the company over the near to medium term.

High customer concentration risk– As SMPL is mainly set up as backward integration for SLS, its revenue will be correlated with the demand coming from SLS. In the event of subdued demand from SLS, SMPL’s operational and financial profile will be accordingly affected. Further, the company primarily focuses on production of billets, which would account for ~100% of its revenue, exposing the company to high product concentration risks.

Regulatory and forex risk – The iron and steel industry is a duty protected domestic industry, which alleviates competitive threats from cheaper imported goods. Therefore, the company remains vulnerable to any reduction or removal of import-duty/ tariff on TMT bars/ billets/sponge iron, which would affect its operational profitability on account of regulatory changes. Besides the regulatory risk exposure, the company is also vulnerable to foreign exchange risks as raw materials are purchased in foreign currencies (occasionally using unhedged foreign currency import loans) while sales revenue is realised in domestic currency. The risk could become pronounced given the lumpiness in raw material procurement.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Established in April 2021, Samridhi Metals Private Limited owns a steel melting plant that produces billets and serves as backward integration unit for the TMT mill owned by Siddhi Laxmi Steels Private Limited; both companies owned by promoters from the Laxmi Group.

SMPL is equally owned amongst five promoters, i.e., Mr. Ganesh Bahadur Shrestha, Mr. Anjan Shrestha, Mr. Nirakar Shrestha, Mr. Niranjan Shrestha and Mr. Sunil Shrestha. SMPL’s plant has a proposed annual capacity of 120,000 MTPA and is located adjacent to the plant of Siddhi Laxmi Steels at Ramgram Municipality, Nawalparasi, Nepal. The project is in the advanced stage of development and is expected to be commissioned within 2023.

Annexure-1: Instrument Details

Instrument (Amount in NPR Million)	Limit	Rating Action
Long-term loan limits (A)	1,241.0	
Fund-based; Long Term loans (a)	1,241.0	[ICRANP] LB+ (assigned)
Short-term loan limits (B)	1,474.5	
Fund-based; Overdraft	474.0	[ICRANP] A4 (assigned)
Fund-based, Trust receipt/Short term loans (sub (b))	(700.0)	
Non-fund based; letter of credit/bank guarantee (b)	1,000.5	
Non-fund based; letter of credit/bridge gap loan (sub (a))	(1,241.0)	
Grand total (A+B)	2,715.5	

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About ICRA Nepal Limited:

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Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

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