# Jagdamba Enterprises Private Limited

**Ratings**

| Facilities | Amount (Rs. in Million) | Ratings[1] | Rating Action |
|---|---|---|---|
| **Long Term Bank Facilities** | **1,886.62** | **CARE-NP BB [Double B]** | **Revised From CARE-NP BB+** |
| **Short Term Bank Facilities** | **13,920.00** | **CARE-NP A4 [A Four]** | **Revised From CARE-NP A4+** |
| **Total Facilities** | **15,806.62** | | |

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long-term bank facilities of Jagdamba Enterprises Private Limited (JEPL) to 'CARE-NP BB' from 'CARE-NP BB+'. CRNL has also revised the rating assigned to the short-term bank facilities of JEPL to 'CARE-NP A4' from 'CARE-NP A4+'.

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of JEPL takes into account its elevated gearing profile along with moderation in debt service coverage indicators in FY23 amid increased debt levels following a string of capital expenditures over FY21-FY23. The relatively subdued demand in recent quarters is likely to put pressure on the company's income and margins over the near-term, likely suppressing its debt service coverage indicators. The ratings continue to factor in working capital intensive nature of operations of the company leading to increased reliance on borrowings, exposure to volatile interest rates, raw material price volatility risk along with foreign exchange fluctuation risk, salability risk associated with the brownfield expansion unit and presence in highly fragmented and competitive nature of steel industry. The company's ability to achieve capacity utilizations at envisaged levels for a sustained period remains to be seen, particularly amid the sluggish demand scenario over the near-term and other industry headwinds currently faced by the steel industry. The ratings, however, continue to derive strength from long track record of operations of the company with experienced management team in the related field, established brand and marketing setup with country-wide market presence, diverse product range catering to wide spectrum of industries. Although near-term industry dynamics remain challenging, the backward integration is expected to be margin accretive for the company and have competitive advantage over standalone rolling mills leading to improved financial profile over medium term.

*Going forward, the ability of the company to improve capacity utilization levels and derive envisaged benefits from the backward integrated SMS and HSM plants would be key rating sensitivities. Also, ability of the company to profitably scale up its operations along with rationalization of its debt levels though efficient working capital management.*

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

**Highly leveraged capital structure with modest debt service coverage indicators**

Overall gearing ratio of the company was highly leveraged at 4.40x at the end of FY23 (FY22: 2.91x) owing to increased debt levels pertaining to the series of majorly debt-funded capex undertaken by the company in FY23 and reliance on external borrowings to meet its working capital requirements. High overall debt led to modest debt service coverage indicators of the company with interest coverage ratio and total debt to Gross Cash Accruals of 1.17x and 87.61x, respectively, during FY23 (FY22: 1.48x and 43.94x). Rationalization of debt levels continues to remain critical from credit perspective.

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[1]*Complete definitions of the ratings assigned are available at [https://www.careratingsnepal.com/](https://www.careratingsnepal.com/) and in other CRNL publications*

**Moderate financial performance with volatile profitability**

The company had backward integrated its manufacturing facility by setting up Steel Melting Shop (SMS) and Hot Strip Mill (HSM), which came into operations in November 2022 and July 2023, respectively. Total cost incurred for the project was Rs. 2,246.14 Mn. Despite completion of large size debt funded capex, the total operating income remained steady at Rs. 15,460 Mn during FY23 (FY22: Rs. 15,461 Mn) with decline in capacity utilization levels majorly on account of sluggish demand and slowdown in construction activities. However, in FY23, PBILDT margin has improved to 5.11% from 3.25% in FY22 on account of lower production cost. Interest expense has increased sharply in FY23 to Rs. 675 Mn from Rs. 341 Mn in FY22 due to higher reliance on short term borrowings during FY23 and addition of term loan taken for capex coupled with increase in interest rates during the year. Furthermore, the company plans to add another SMS plant at estimated cost of Rs. 350 Mn to be funded by debt to equity ratio of 85:25 and expected COD is July 2025. The company's ability to achieve scale and profitability as envisaged will remain critical for its business prospects and will remain critical from credit perspective.

**Raw material price volatility risk and foreign exchange fluctuation risk**

The major raw materials for JEPL are mostly imported from India, the prices of which are market linked and determined on a periodic basis, thus exposing the company to the volatility in input prices which has a bearing on its profitability margins. The raw material cost contributed around 84% of the total operating income of the company during FY23, thus, any volatility in prices of the same impacts the profitability of the company. Also, the company is exposed to foreign exchange fluctuation risk as the prices of imported raw materials are linked to USD. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

**Working Capital Intensive Nature of Operations**

The operations of the company are working capital intensive in nature. JEPL is involved in manufacturing wide range of steel products and is required to maintain adequate inventory of raw material for smooth running of its production processes and meet immediate demand of customers. Also, being a highly competitive business, the company has to extend credit period to its dealers which is up to 90 days whereas company has to make immediate payment to its suppliers. Net-Operating cycle of the company was high at 174 days at the end of FY23 on account of high inventory holding period and high debtors. Furthermore, being a manufacturer, it is critical for the company to maintain minimum inventory levels to meet immediate demand of its customers; all this led to high working capital requirements which were largely met through bank borrowings.

**Key Rating Strengths**

**Established and long track record of operations with experienced management team in the related field**

JEPL has an operational track record of around two decades in manufacturing of various steel products. JEPL is promoted by industrialists and traders of Nepal, who are involved in manufacturing of cement, trading of construction materials, hospitality business among others. The company is managed under the overall guidance of its three-member Board of Directors (BoD) which includes eminent businessmen/industrialists with wide experience in the manufacturing sectors. The day-to-day operations of the company is looked after by Mr. Anil Kumar Rungta and Mr. Vishal Patwari, Directors, both having experience of two decades in the steel industry and handle marketing, purchase of material and production planning of the company.

**Established brand with country wide market presence**

JEPL has successfully established "Jagdamba" and "Jag Shakti" as a brand name in different type of iron and steel products in the domestic market. Established brand image ensures customer loyalty and aid in the differentiation of products with the competitors. Additionally, the company markets and sells its entire range of products through a well-established network. JEPL has a strong dealer base across all major cities in the country which provides a ready market for its products.

**Diverse product range catering to wide spectrum of industries**

JEPL manufactures variety of steel products of different sizes which includes TMT bars, MS Black Pipes, Galvanized Iron pipes, hot rolled strips, shutter profiles, shutter guide, shutter spring, lock plate, prefabricated building components, W-beams and different steel poles which finds application in varied industries including construction, automobile, chemical and oil industries etc. The wide application not only diffuses the risk of dependency on a single industry but also allows the company to cater to a larger market with a broad customer base.

**Locational advantage**

The plant site is located in Parsa, around 15 Kms from Indo-Nepal borders and Birgunj dry-port. Since majority of raw materials used by JEPL are imported from India, the factory's proximity to the border remains a positive point leading to saving in freight cost.

**Stable demand outlook for steel products likely in the medium-term**

Demand of steel products in the country is expected to grow in the medium-term despite near-term industry headwinds. Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. Sustained demand for steel is likely given the need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Furthermore, the government's continued emphasis on infrastructure development, namely development of roads, hydropower, airports and other infrastructures etc. is likely to benefit the steel manufacturers like JEPL. However, with the construction sector in Nepal impacted by slower pace of economic growth coupled with relatively lower infrastructure spending by the government, the outlook of steel industry in Nepal looks challenging in the near term, particularly if actual government spending continues to be much lower than budgeted.

**About the Company**

Jagdamba Enterprises Private Limited (JEPL) is a private limited company which was incorporated on March 29, 2001 for setting up M.S. Black & Galvanized pipe manufacturing plant in Jeetpur, Parsa district of Nepal. The company is operating from more than 20 years, manufacturing wide range of steel products with total installed plant capacity of 920,600 Metric Tons Per Annum (MTPA) as on mid-July 2023.

Brief financials of JEPL for last three years ending FY23 are given below:

**Financial Performance**

(Rs. Million)

| For the year ended mid-July | FY21 (A) | FY22 (A) | FY23 (A) |
|---|---|---|---|
| Income from Operations | 14,026 | 15,461 | 15,460 |
| PBILDT Margin (%) | 10.87 | 3.25 | 5.11 |
| Overall Gearing (times) | 2.83 | 2.91 | 4.40 |
| Total Outstanding Liabilities/Tangible Net worth (times) | 3.14 | 3.11 | 4.65 |
| Interest Coverage (times) | 8.38 | 1.48 | 1.17 |

| | | | |
|---|---|---|---|
| Current Ratio (times) | 1.19 | 1.05 | 1.04 |
| Total Debt/Gross Cash Accruals (times) | 5.76 | 43.94 | 87.61 |

A: Audited

**Annexure 1: Details of the Facilities Rated**

| Nature of the Facility | Type of the facility | Amount (Rs. In Million) | Ratings |
|---|---|---|---|
| Long Term Bank Facilities | Term Loan/Bridge Gap Loan | 1,886.62 | CARE-NP BB |
| Short Term Bank Facilities | Fund Based Limits | 3,470.00 | CARE-NP A4 |
| Short Term Bank Facilities | Non–Fund Based Limits | 10,450.00 | CARE-NP A4 |
| **Total** | | **15,806.62** | |

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