

**Rating Rationale**  
**Narayani Steels Private Limited**

**Ratings**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	189.75	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	1,175.00	CARE-NP A4 [A Four]	Reaffirmed
<b>Total facilities</b>	<b>1,364.75 (Increased from Rs. 903.51 Mn)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long-term bank facilities and ‘CARE-NP A4’ assigned to the short-term bank facilities of Narayani Steels Private Limited (NSPL).

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities of NSPL factors in decline in profitability and cash accruals along with net loss in FY20 (audited, refers to 12 months period ended mid-July 2020), however with improvement in financial performance during H1FY21 (provisional, refers to 6 months period ended mid-January 2020) coupled with leveraged capital structure and weak debt service coverage indicators at the end of FY20. The ratings also factor in NSPL’s working capital intensive nature of operations, raw material price volatility and foreign exchange fluctuation risk, exposure to volatile interest rates coupled with presence in highly fragmented and competitive nature of steel industry. The ratings however, derive strength from growth in operations and revenue of the company in FY20, strong presence of the promoter group in steel sector supported by experienced management team, diverse product range catering to wide spectrum of industries, established brand and marketing network of the group with country wide presence. The ratings also factor in locational advantage and demand of steels products in the country. Ability of the company to manage the growth in the operations & improving the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

***Impact of COVID-19 on the operations and financials of the company***

With the outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. During the lockdown period, sales of the company has been directly impacted in FY20. However, with government easing restriction for various activities recently, operations, revenue and profitability of the company is also expected to improve in FY21.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

***Growth in operations and revenue of the company in FY20, however with decline in profitability and cash accruals along with net loss***

The capacity utilization of the company improved from 41.28% in FY19 to 45.12% in FY20. With increased operations, total revenue of the company also increased by ~4% to Rs. 1,332 Mn in FY20, however the growth was subdued on account of impact of Covid-19 during the year. Despite increase in total revenue, PBILDT and PBILDT margin of the company declined in FY20 majorly due to decline in average price realization of its products. Due to decline in PBILDT, the company incurred net loss in FY20. During H1FY21, the capacity utilization has further improved to 51.63% with the company booking total revenue of Rs. 796 Mn and PBILDT margin improved to 8.03% on back of improvement in average price realization during the period.

***Leveraged capital structure and weak debt service coverage indicators***

Debt-equity ratio of the company was low at 0.99x at the end of FY19 which improved from 1.07x at the end of FY19 on back of repayment of term loans. Total gearing ratio of the company was high at 6.02x at the end of FY20 which deteriorated from 5.29x at the end of FY19 majorly due to increase in working capital loans to fund increased working capital requirements of the company followed by decline in net worth with company incurring net loss. Promoters of the company had infused fresh equity capital of Rs. 10 Mn in FY20 to fund the operations of the company. However, with further increase in working capital loans to fund increased imports during H1FY21, overall gearing ratio has further deteriorated to 6.79x. NSPL had a moderate interest coverage ratio of 1.47x and high Total debt/ Gross Cash Accruals of 41.34x in FY20. Interest coverage ratio and Total debt/ Gross Cash Accruals of the company has improved to 4.48x and 25.04x in H1FY21.

***Working capital intensive nature of operations***

The operations of the company are working capital intensive in nature as NSPL manufactures wide range of steel products by majorly importing raw materials through Letter of Credit. Also, NSPL has to fund the inventory and debtors which lead to high reliance on working capital limits. Total operating cycle of the company was 114 days in FY19 which increased to 160 days in FY20 mainly due to increase in inventory days leading to high reliance of the company on the bank finance for working capital needs. The average utilisation of fund-based working capital limit against drawing power was around 90% during the last 12 months period mid-January, 2021.

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

The major raw materials for NSPL are majorly imported from India, the prices of which are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials having bearing on its profitability margins. The raw material cost along with trading purchases contributed around ~84% of the total operating income of the company during FY20, 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 are linked to USD. NSPL incurred foreign exchange loss of Rs. 13 Mn during FY20 compared to Rs. 5 Mn during FY19 due to foreign exchange fluctuations. 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.

***Presence in highly fragmented and competitive nature of steel industry***

The iron and steel industry is intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. The demand of iron & steel products is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Furthermore, the value addition in the steel products like wires and related products is low, resulting into low product differentiation in the market. Further, with increase in the capacities of the existing plants and new capacities coming into operation completion has intensified which has resulted into substantial decline in profitability margins of the industry players in FY20.

**Key Rating Strengths**

***Strong presence of the promoter group in steel sector supported by experienced management team***

Although NSPL commenced its operations from FY18, the promoters of the company have wide experience in manufacturing steel and other construction materials for more than three decades. NSPL is part of the Keyal group of companies of Nepal which is a diversified business group with strong presence in a broad range of business, manufacturing and industrial interests with main focus on manufacturing construction materials. The group also has 15 hardware outlets across the country which are strongly contributing to the group's steel business. The company is managed under the overall guidance of its nine members Board of Directors (BoD) which includes experienced businessmen/industrialist from the Keyal group with wide experience in the manufacturing sector. Mr. Satya Narayan Keyal, Chairman of the Keyal group of companies is also the chairman of NSPL and has more than 30 years of experience in trading and manufacturing industry. Mr. Bikash Kumar Keyal, Director, has been involved in the groups business for the past 16 years and looks after the whole group's accounting and finance. Promoters of the company have injected equity of Rs. 10 Mn in FY20 to support increased operations.

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

NSPL has been manufacturing various types of wires such as GI wires, MS wires, Barbed wires and other allied products which are produced in various variants as per the demand in the market. Barbed wires are majorly used for border security as well as in industrial and household security purposes. GI wires, having various household, industrial and engineering applications, are majorly used for making GI wire net and variants which are used in gabion walls for preventing soil erosion in roads, in surrounding households and industries and in hydropower projects. NSPL sells its product all over Nepal and the sales are through direct marketing to existing as well as new customers. Most of the sales revenue comes through direct domestic sales.

***Established brand and marketing network of the group with country wide presence***

The company sells wires, nails and other allied products under the brand name of “Narayani Steels” which is already an established brand in the Nepal market on account of its long-standing presence in the construction materials manufacturing and trading industry. This provides leverage to the company in front of new players entering the industry. The group also has 15 in-house hardware trading outlets in and around the Kathmandu Valley which makes it easier to penetrate into the market and cater to large section of customers. Also, the group already has a well-established dealer/distributor network in around 129 areas across the country which provides a ready market for its products.

***Locational advantage***

The plant site is located in Chhatapipra, Simara, around 15 Kms from Indo-Nepal border in Birgunj dry-port. Since majority of raw materials used by NSPL are imported from India, the factory’s proximity to the border remains a positive point leading to savings in huge freight cost.

***Demand of steels products in the country***

Nepalese economy is developing and growing and is in phase of investment in infrastructure, power sector and tourism sector. In the budget presented by finance minister of Nepal for FY21, government has allocated Rs. 55 Bn for reconstruction with major focus towards development of health sectors, tourism sectors and other infrastructure development. However, with economic activities affected by COVID-19 pandemic, demand for steel may be subdued in short term, but with government focus on infrastructure, demand is likely to grow in long run. Government’s high emphasis on infrastructure development and power sector in the budget for FY20-21 is likely to benefit the steel manufacturers like NSPL.

**About the Company**

Narayani Steels Private Limited (NSPL) is a private limited company incorporated on April 30, 2004 for manufacturing of wires, nails and other allied steel products at factory located in Simara, Nepal. NSPL is part of the Keyal group of companies of Nepal and all the shares of the company are held by individual promoter from Keyal group. The company commissioned operations in December 2018 with capacity of 65,000 MTPA.

Brief Financial Performance during the last 3 years and H1FY21 is as follows:

(Rs. In Million)

For the year ended Mid July	FY18	FY19	FY20	H1FY21
	(Audited)			(Unaudited)
Income from Operations	590	1,277	1,332	796
PBILDY Margin (%)	8.33	9.62	7.65	8.03
Overall Gearing (times)	6.69	5.29	6.02	6.79
Interest coverage (times)	3.59	1.88	1.47	4.48
Current Ratio (times)	0.94	0.95	0.90	0.94
Total Debt/Gross Cash Accruals (times)	16.07	15.55	41.34	25.04

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

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	189.75	<b>CARE-NP BB</b>
Short Term Bank Facilities	Fund Based Limit	1,175.00	<b>CARE-NP A4</b>
<b>Total</b>		<b>1,364.75</b>	