

Narayani Rolling Mills Private Limited

Rating

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Short Term Bank Facilities	2,340.00	CARE-NP A4+ [A Four Plus]	Revised from CARE-NP A4
Total Facilities	2,340.00		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Ltd. (CRNL) has revised the rating to 'CARE- NP A4+' to the short-term bank facilities of Narayani Rolling Mills Private Limited (NRPL).

Detailed Rationale & Key Rating Drivers

The revision in short term rating assigned to the bank facilities of NRPL takes into account overall improvement in the financial performance of the company during FY21 (audited, refers to 12 months' period ended mid-July 2021) and rationalization of the debt levels of the company.

The ratings continue to be constrained by leveraged capital structure at the end of FY21, 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, continue to derive strength from experienced promoters and management in the related field, locational advantage of the manufacturing facilities, established marketing setup and demand of steel products in the country.

Going forward, the ability of the company to profitability scales up its operations and rationalization of its debt level by managing the working capital requirements supporting the growth in operations will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Improvement in operating cycle

Total operating cycle of the company improved marginally from 188 days in FY20 to 147 days in FY21 primarily on account of reduction in average collection period from 97 days in FY20 to 49 days in FY21.

The reduction in collection period was on account of management focus towards cash sales. Inventory holding period of the company continued to remain high at 3 months as being a manufacturer, NRPL is required to maintain adequate inventory of material on account of lead time for purchases and to ensure regular supply of raw materials for uninterrupted manufacturing operations. The company imports its raw material mainly from India backed by normally sight letter of credit leading to low average payable period. All this leads to high reliance of the company on the bank finance for working capital requirements. The average monthly outstanding of fund-based working capital limit against drawing power was around 85% during last 18 months period ended mid-January 2022.

Leveraged capital structure, however improved in FY21

The company doesn't have any long-term borrowings and debt is mainly in the form of working capital borrowings. Overall gearing ratio of the company was high at 3.97x at the end of FY21 which improved from 7.03x over previous balance sheet date. The improvement in capital structure is mainly attributed to lower utilization of working capital loans during the year and increase in networth base due to accretion of profits to reserves. NRPL had low interest coverage ratio of 0.49x in FY20 which improved substantially to 3.90x in FY21. Total debt to Gross Cash Accruals continued to be modest at just below 11x in FY21 which was negative in FY20.

Exposure to raw material price volatility risk and foreign exchange fluctuation risk

The major raw materials for NRPL 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 a bearing on its profitability

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

margins. The raw material cost along with trading purchases contributed around 93% of the total operating income of the company during FY21, 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. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of highly fragmented and competitive nature of the industry, which could lead to decline in profitability margins.

Presence in highly competitive nature of steel industry in Nepal

The iron and steel industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. The demand of 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 TMT bars & related products is low, resulting into low product differentiation in the market. The producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Exposure to volatile interest rate

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be changed by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate

Key Rating Strengths

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

NRPL has an operational track record of more than two decades in manufacturing of TMT Bars, angles, flats, sections and other allied steel products. The promoters of the company have wide experience in manufacturing steel and other construction materials for more than three decades. NRPL 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 presence is reflected from hardware outlets spreading across the country which contributes 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 NRPL and also the Chairman of the Keyal group of companies has more than 30 years of experience in trading and manufacturing industry. Mr Anuj Keyal, Director, joined the business 6 years back and is involved in setting up all the new plants within the group.

Improved profitability of the company during FY21

NRPL's total revenue improved marginally by ~6% in FY21 to Rs. 2,974 Mn majorly due to increase in overall average price realization of its products. Total revenue is mainly contributed by cold rolled torkari contributing around 30% followed by angles and flats contributing around 37% in FY21. With low cost of goods sold, PBILDT margin of the company improved to 5.59% in FY21 from 2.72% in FY20. Accordingly, PBILDT stood at Rs. 166 Mn in FY21. NRPL reported net profit of Rs. 69 Mn during FY21 compared to net loss in FY20. Also due to lower average utilization of working capital loans in FY21, interest expense reduced from Rs. 154 Mn in FY20 to Rs. 43 Mn in FY21. With company incurring profit during FY21 as compared to net loss in FY20, GCA of the company improved to Rs. 105 Mn in FY21 from negative GCA during FY20.

Locational advantage with established brand and marketing network

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

The company sells TMT, angles, flats, wires 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 along with a well-established dealer/distributor network in around 129 areas across the country which provides a ready market for its products.

About the Company

Narayani Rolling Mills Private Limited (NRPL) is a private limited company incorporated on May 15, 1992 which came into operation from 1995 for manufacturing TMT Bars, angles, and other allied products having plant in Chhatapipra, Bara, Nepal. NRPL is part of the Keyal group of companies of Nepal and majority of the shares of the company are held by individual promoter from Keyal group. Currently, the total installed capacity of the entire plant is 48,300 Metric Tons Per Annum (MTPA).

Brief financials of NRPL during last 3 years is given below:

Financial Performance

(Rs. in Mn)

Particulars	FY19	FY20	FY21
	Audited	Audited	Audited
Income from Operations	3,584	2,794	2,974
PBILDT Margin (%)	5.66	2.72	5.59
Overall Gearing (times)	5.19	7.34	3.97
Interest coverage (times)	1.44	0.49	3.90
Current Ratio (times)	1.01	0.92	0.90
Total Debt/Gross Cash Accruals (times)	388.70	(15.49)	10.98

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Short Term Bank Facilities	Fund Based Limit	90.00	CARE-NP A4+
Short Term Bank Facilities	Non-Fund Based Limit	2,250.00	CARE-NP A4+
Total Facilities		2,340.00	

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