

## Narayani Steels Private Limited

### Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	151.50	<b>CARE-NP BB+ [Double B Plus]</b>	Revised from CARE-NP BB
Short Term Bank Facilities	1,250.00	<b>CARE-NP A4+ [A Four Plus]</b>	Revised from CARE-NP A4
<b>Total Facilities</b>	<b>1,401.50 (Increased from Rs. 1,364.75 Mn)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited has revised the rating to 'CARE-NP BB+' for the long term bank facilities and to 'CARE-NP A4+' for the short term bank facilities of Narayani Steels Private Limited (NSPL).

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of NSPL factors in the overall improvement in financial risk profile of the company in FY21 (Audited, refers to 12 month's period ended mid-July 2021). The ratings, also 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.

The ratings, however, continue to be constrained by leveraged capital structure, working capital intensive nature of operations and presence in highly competitive nature of steel industry in Nepal. The ratings also factor in raw material price volatility and foreign exchange fluctuation risk and exposure to volatile interest rates.

*Going forward, the ability of the company to profitability scale 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

##### **Leveraged capital structure though improved during FY21**

The company had leveraged capital structure primarily due to high dependence on working capital borrowings. As on Mid-July 2021, the overall gearing ratio of the company stood high at 3.26x (PY:5.43x; including acceptances of letter of credit). The overall gearing has shown improvement on account of increase in net-worth due to plough back of profit into business. Though the overall gearing improved on the balance sheet date of FY21, it continued to remain high.

##### **Improvement in operating cycle, however high reliance on bank finance for funding the requirement**

Total operating cycle of the company improved from 160 days for FY20 to 128 days for FY21 primarily on account of reduction in average collection period from 94 days in FY20 to 57 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 2-2.5 months as being a manufacturer, NSPL 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 and mainly backed by 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 88% during last 12 months period ended mid-November 2021.

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

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

Wire Rod, Zinc Ingot and Lead Ingot are the major raw materials for NSPL and 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 which has a bearing on its profitability margins. The raw material cost contributes around 86% of the total operating cost of the company, thus, any volatility in prices of the same impacts the profitability of the company. Furthermore, the majority of its raw material requirements is imported, prices of which is linked to USD, for which it is exposed to the foreign exchange fluctuation risk. 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***

Although NSPL commenced its operations only in July 2018, 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 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 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.

***Improved financial risk profile during FY21***

For the period of FY19-FY21, Total Operating Income (TOI) of the company has been growing on y-o-y basis from Rs. 1,277 Mn in FY19 to Rs. 1,658 Mn in FY21 (Audited, refers to 12 months period ended mid-July 2021). NSPL's TOI improved by 25% for FY21 majorly due to increase in quantity sold by 20% to 17,092 MT as well as improvement in average price realization.

PBILD in FY21 stood at Rs. 140 Mn, with improvement in PBILD margin to 8.42% from 6.70% in FY20. With the improvement in PBILD and decline in interest expense due to lower average utilization of working capital borrowings, net profit of the company improved to Rs 67 Mn from Rs. 2 Mn in FY20. GCA of the company also increased and stood at Rs. 102 Mn in FY21 as against Rs. 20 Mn in FY20.

### ***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.

### ***Locational advantage with established brand and marketing network***

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 argues well for importer and provides a competitive advantage in terms of savings in freight cost.

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.

### **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 of NSPL during last 3 years is given below:

(Rs. In Million)

Particulars	FY19 (A)	FY20 (A)	FY21(A)
Income from Operations	1,277	1,332	1,658
PBILDT Margin (%)	9.62	6.70	8.42
Overall Gearing (times)	5.29	5.43	3.26
Interest coverage (times)	1.88	1.29	4.88
Current Ratio(times)	0.95	0.90	0.98
Total Debt/Gross Cash Accruals(times)	15.55	41.34	7.08

A: Audited

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

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	151.50	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limit	1,250.00	CARE-NP A4+
<b>Total</b>		<b>1,401.50</b>	

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