

## Narayani Ispat Private Limited (NIPL)

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,054.55 ( Increased from 1,517.88)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	5,136.08 (Increased from 3,525.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	7,190.63 (Seven Billion One Hundred Ninety Million and Six Hundred Thirty Thousand Only)		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the 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 Ispat Private Limited (NIPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NIPL continue to be constrained by the company's highly leveraged capital structure and working capital intensive nature of operations. The ratings also factor in the raw material price volatility risk and foreign exchange fluctuation risk, exposure to volatile interest rates and presence in 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, and established marketing and distribution setup. The ratings also take cognizance of steady improvement in operating performance of the company in FY23 (FY refers to the twelve-month period ending mid-July) albeit with modest profitability. The additional continuous casting machine (CCM) capacity, which is expected to commence operations in later half of FY24 is likely to boost its profitability going forward. Although near-term industry dynamics remain challenging amid sluggish demand scenario, the backward integration is expected to be margin accretive for the company leading to improved financial profile over medium term as demand recovers.

*Going forward, the ability of the company to improve capacity utilizations with better profitability margins and rationalization of its debt level by managing the working capital requirements leading to improved solvency indicators will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Highly leveraged capital structure

NIPL's capital structure remains highly leveraged marked by overall gearing ratio (including provision for LC) at FY23 end of 5.67x, improving slightly from 6.90x at the end of FY22 aided by equity infusion of Rs. 200 Mn during the year. Debt levels remain relatively high owing to recently concluded and ongoing capex coupled with increased working capital requirements amid growing scale of operations. Consequently, interest coverage ratio was 1.77x in FY23 which decreased from 2.78x in FY22 amid increased interest outgo. Total Debt/Gross Cash Accruals (GCA) increased from 15.32x in FY22 to 24.22x in FY23. Limited gearing headroom could limit a company's financial flexibility to raise additional debt. The company's ability to rationalize debt levels leading to improved solvency indicators remains critical from analytical perspective.

<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**

The major raw materials are imported from India and the price of the raw materials 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 93% 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**

The company has substantial interest outgo lined up over the next couple of years amid relatively high debt levels. The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Sustained high interest rates, as seen over the last year or so, add to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

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

Although NIPL 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. NIPL 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. Bikash Kumar Keyal, Chairman of NIPL, has been involved in the groups business for the past 15 years and looks after the whole group's accounting and finance. Mr. Satya Narayan Keyal, Director of NIPL and also Chairman of the Keyal group of companies has more than 30 years of experience in trading and manufacturing industry.

**Improved operational performance during FY23 although profitability remains modest amid industry headwinds**

NIPL's total revenue improved in FY23 to Rs. 10,555 Mn from Rs. 9,283 Mn in FY22. This increase was majorly due to increase in quantity sales sold by ~9.25% to 115,519 MT majorly in TMT bars as well as improvement in average price realization. However, PBILDT decreased by 2.02% y-o-y in FY23, with decrease in PBILDT margin by 10 bps to 4.07% in

FY23. This was majorly due to the company's inability to adequately pass on the increase in raw material cost during FY23 amid stiff competition coupled with softening of prices. With the slightly lower PBILDT and increase in interest expense from Rs 139 Mn in FY22 to Rs 243 Mn in FY23, net profit of the company declined to Rs 36 Mn from Rs 123 Mn in FY22. GCA of the company also decreased from Rs. 247 Mn in FY22 to Rs. 186 Mn in FY23. The company's additional CCM capacity is expected to be operational before FY24 end, which is expected to improve the margin profile of the company going forward.

### Moderate operating cycle

In FY23, average collection period for the company remained steady around 22 days. Also, company keeps stock for around 2 months and average inventory days was 29 days in FY23 decreased from 38 days in FY22. In absolute term, inventory of the company increased to Rs. 824 in FY22 from Rs. 745 Mn in FY22. Total operating cycle of the company decreased to 40 days in FY23 from 49 days in FY22. Total operating cycle of the company decreased to 40 days in FY23 from 49 days in FY22. Moderate operating cycle is likely to help the company rationalize its debt levels going forward as the operations stabilize over the medium-term.

### Locational advantage with established brand and marketing network

The plant site is located in Chatapipra, Bara, around 15 Kms from Indo-Nepal borders in Birgunj dry-port. Since majority of raw materials used by NIPL are imported from India, the factory's proximity to the border which argues well for importer and provides a competitive advantage in terms of savings in freight cost. The company sells TMT bars 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 has 15 in-house hardware trading outlets in and around the Kathmandu Valley. Also, the group already has a well-established dealer/distributor network in 129 locations across the country.

### About the Company

Narayani Ispat Private Limited (NIPL) is a private limited company incorporated on September 17, 2009 for manufacturing of TMT bars and other allied steel products at factory located in Chatapipra, Bara. NIPL 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 July 2018 and has capacity of 322,000 MTPA for manufacturing rolled products such as TMT bars, M.S Round etc.

### Financial Performance

(Rs. Million)			
For the Period	FY21 (A)	FY22 (A)	FY23(A)
Income from Operations	5,605	9,293	10,569
PBILDT Margin (%)	4.47	4.17	4.07
Overall Gearing (times)	6.64	3.00	4.33
Total Outstanding Liabilities/Tangible Net worth (times)	8.17	7.53	6.03
Interest Coverage (times)	1.91	3.57	1.77
Current Ratio (times)	0.74	0.73	0.49
Total Debt/Gross Cash Accruals (times)	31.80	15.32	24.22

A: Audited

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

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	2,054.55	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	5,136.08	CARE-NP A4 [A Four]
<b>Total</b>		<b>7,190.63</b>	

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