

## Narayani Rolling Mills Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Short Term Bank Facilities	1,750.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,750.00 (One Billion and Seven Hundred Fifty Million Only)		

*Details of instruments/facilities in Annexure 1*

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

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of NRPL is constrained by declining financial performance trend of the company during FY23 (Audited, FY refers to the twelve-month period ending mid-July) amid challenging operational environment. Low margins have led to weak debt protection metrics of the company in FY23, which also remains a key rating constraint. Furthermore, the rating continues to factor in 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, and established marketing setup. *Going forward, the ability of the company to profitably scale up its operations and rationalization of its debt level by managing the working capital requirements will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Declining financial performance trend in FY23 amid industry headwinds

NRPL's total operating income declined by ~19% in FY23 to Rs. 2,800 Mn amid muted demand. With high cost of goods sold, PBILDT margin of the company declined from 3.63% in FY22 to 2.30% in FY23. Accordingly, NRPL reported net profit of Rs. ~9 Mn during FY23 compared to Rs. 33 Mn in FY22. Similarly, GCA of the company was Rs 24 Mn during FY23 from Rs. 63 Mn during FY22. The sluggish demand scenario has sustained so far in FY24, which is likely to result in further moderation in income levels and profitability of the company in FY24.

##### Weak debt protection metrics, albeit gearing profile remains moderate

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 moderate at 1.83x at the end of FY23 which improved from 2.88x at the end of FY22. This was majorly due to lower debt levels at FY23 end on account of decline in short term borrowings to Rs. 577 Mn in FY23 from Rs. 952 Mn in FY22. Interest coverage ratio was 1.70x in FY23 which decreased from 2.19x in FY22 due to higher interest rates and lower profitability. Furthermore, Total debt to GCA stood high at 24.29x in FY23 amid lower cash accruals.

##### 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

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

profitability margins. The raw material cost along with trading purchases contributed around 90% 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. 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 are 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 pricetakers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

### **Exposure to volatile interest rate**

Sustained requirement for short-term working capital borrowings results in a relatively high interest expense for NRPL. 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**

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 31 years of experience in trading and manufacturing industry. Mr Anuj Keyal, Director, joined the business 7 years back and is involved in setting up all the new plants within the group.

#### **Moderate operating cycle**

Total operating cycle of the company improved to 65 days in FY23 from 89 days in FY22 mainly due to decrease in inventory days. The reduction in collection period was on account of management focus towards cash sales. Average inventory holding period improved significantly to 47 days in FY23 from 67 days in FY22. Further, credit period allowed to the company during FY23 was at 9 days. The company imports its raw material mainly from India backed by normally sight letter of credit leading to low average payable period. 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 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 Chatapipra, 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. Million)

For the Period	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	2,974	3,440	2,803
PBILDT Margin (%)	5.59	3.63	2.30
Overall Gearing (times)	4.07	2.88	1.83
Total Outstanding Liabilities/Tangible Net worth (times)	4.22	3.00	2.15
Interest Coverage (times)	3.90	2.19	1.70
Current Ratio (times)	0.90	0.86	0.72
Total Debt/Gross Cash Accruals (times)	11.28	15.01	24.29

A: Audited

### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Fund Based Limits	308.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non Fund Based Limits	1,442.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,750.00</b>	

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