Narayani Steels Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	140.32	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	1,140.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	1,280.32 (One Billion Two Hundred Eighty Million and Three Hundred Twenty Thousand Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings 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 ratings assigned to the bank facilities of NSPL continue to be constrained by leveraged capital structure along with moderate debt coverage indicators in FY23 (Audited, FY refers to the twelve-month period ending mid-July) and working capital intensive nature of operations. The ratings also factor in raw material price volatility and foreign exchange fluctuation risk, presence in highly competitive nature of steel industry in Nepal, and exposure to volatile interest rates. The ratings, however, 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 also take cognizance of steady financial performance of the company during FY23 (Audited, FY refers to the twelve-month period ended mid-July) in spite of challenging operational environment.

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 will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure

The capital structure of the company is highly leveraged marked by overall gearing ratio (including LC payables) of 5.12x at the end of FY23, which had increased from 3.33x at the end of FY22. This was mainly on account of higher LC payables at FY23 end. Fund based limits utilization was moderate, which accounted for improved interest coverage in FY23 to 2.57x in FY23 with decrease in interest expenses to Rs 50 Mn in FY23 from Rs. 61 Mn in FY22 coupled with higher PBILDT. Total debt/ GCA for FY23, however, stood high at 15.94x in FY23 although decreased from 62.18x in FY22 on account of improvement in gross cash accruals (GCA).

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 83% 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

[1]*Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications*

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 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 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 31 years of experience in trading and manufacturing industry. Mr. Bikash Kumar Keyal, Director, has been involved in the groups business for the past 17 years and looks after the whole group's accounting and finance.

Steady financial performance trend in FY23 despite industry headwinds

Total operating income of the company increased by ~33% y-o-y to Rs. 2,144 Mn in FY23 from Rs. 1,608 Mn in FY22. This increase was majorly due to increase in total quantity sold to 17,256 MT in FY23 from 13,970 MT in FY22. This was also supported by increase in overall average price realization for the products to Rs. 124,263 Mn in FY23 from Rs. 114,964 Mn in FY22. With increase in total revenue, PBILDT margin improved to 5.94 % in FY23 compared to 4.63% in FY22. Consequently, the company generated GCA of Rs. 76 Mn in FY23 compared to Rs.10 Mn in FY22. However, amid muted demand prospects, the company's income levels and profitability could moderate in FY24.

Moderate operating cycle

Total operating cycle of the company was 78 days in FY23 which decreased from 99 days in FY22 mainly due to decrease in inventory days and debtor days. Average debtor collection period of the company was at 39 days in FY23 decreased from 51 days in FY22 majorly due to more focus of the company towards cash sales minimizing their credit sales. Also, average inventory days decreased to 44 days in FY23 from 53 days in FY22. Further, credit period allowed to the company during FY23 was at 5 days. The company imports its raw material mainly from India and mainly backed by 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.

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 Chorni, Parsa, around 15 Kms from Indo-Nepal borders 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 Chorni, Parsa, 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 financials of NSPL during last 3 years is given below:

Financial Performance

(Rs. Million)

For the Period	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	1,658	1,608	2,151
PBILDT Margin (%)	8.44	4.42	5.94
Overall Gearing (times)	3.27	3.33	5.12
Total Outstanding Liabilities/Tangible Net worth (times)	3.41	3.58	5.30
Interest Coverage (times)	4.89	1.17	2.57
Current Ratio (times)	0.98	0.64	0.80
Total Debt/Gross Cash Accruals (times)	7.09	62.18	15.94

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	140.32	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	1,140.32	CARE-NP A4 [A Four]
Total		**1,280.64**	

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About CARE Ratings Nepal Limited:

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