

Narayani Strips Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	1764.85 (Increased from 557.66)	CARE-NP B+ [Single B Plus]	Revised from CARE-NP BB-
Short Term Bank Facilities	3,154.25 (Decreased from 4,513.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,919.10 (Four Billion Nine Hundred Nineteen Million and One Hundred Thousand Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long-term bank facilities of Narayani Strips Private Limited (NSPL) to 'CARE-NP B+' from 'CARE-NP BB-' and reaffirmed the rating of 'CARE-NP A4' assigned to its short-term bank facilities.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of NSPL takes into account declining trend in the financial performance of the company during FY23 (Audited, FY refers to the twelve-month period ended mid-July) coupled with challenging operational environment leading to prospect of further moderation during FY24. The ratings 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. 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.

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

Declining financial performance of the company during FY23

NSPL's total operating income decreased by ~8.36% during FY23 to Rs. 3,341 Mn from Rs. 3,648 Mn in FY22. This was on account of both decline in average price realization as well as decline in quantity sold to 23,726 MT in FY23 from 25,194 MT in FY22 amid muted demand. With lower TOI in FY23 coupled with increased input cost which the company could not adequately pass on, PBILDT margin declined to 3.91% in FY23 from 10.49% in FY22. This coupled with substantial increase in interest expense in FY23, NSPL incurred net loss of Rs. 245 Mn during FY23 compared to profit of Rs. 72 Mn in FY22. Consequently, GCA of the company stood negative during FY23 as compared to Rs. 167 Mn during FY22. Amid challenging operating environment, the company's income levels and profitability is likely to remain subdued in FY24 and sequential improvement is expected as demand recovers over the medium-term.

Leveraged capital structure

The capital structure of the company is highly leveraged with overall gearing ratio of 7.05x at the end of FY23 which increased from 3.76x at the end of FY22. This was due to increase in total debt coupled with lower net worth which has declined to Rs. 464 Mn in FY23 from 750 Mn in FY22 owing to net losses in FY23. NSPL's interest coverage was below

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

unity in FY23 declining from 1.93x in FY22, due to increase in interest expenses along with decline in PBILDT. Total debt/GCA of the company stood negative in FY23.

Elongated operating cycle with high reliance on bank finance for funding the requirement

Operating cycle of the company was 190 days in FY23 which increased from 158 days in FY22 mainly due to increase in inventory days. Average inventory days was 125 days in FY22 which increased to 134 days in FY23. Average collection period was 68 days during FY23 which has increased from 47 days on FY22. The company imports its raw material mainly from India and backed by sight letter of credit leading to low average payable period of 12 days for FY23 which is almost same to 14 days in FY22. Elongated operating cycle has led to increased reliance on bank borrowings of the company, which is also reflective in the increased interest outgo during FY23.

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 87% 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 NSPL commenced its operations from FY16, 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 NSPL and also the chairman of the Keyal group of companies 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.

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 remains a positive point leading to savings in huge freight cost. The company sells pipes, sheets 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.

Diverse product range catering to wide spectrum of industries

NSPL is into manufacturing Hot Rolled (HR), Cold Rolled (CR) and Stainless Steel (SS) pipes, HR, CR Sheets, corrugated and plain sheets and other allied products. Company is also involved in selling hot rolled coil (HRC) sheet and cold rolled coil (CRC) sheet by cutting it in different sizes. 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 through its trading houses.

About the Company

Narayani Strips Private Limited (NSPL) is a private limited company incorporated on April 13, 2015 for manufacturing Pipes, Sheets, Slits, Ridge, Chequer Plate, having plant 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 plant came into operation in FY16 and currently, the total installed capacity of the entire plant is 4,22,400 Metric Tons Per Annum (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	4,140	3,648	3,346
PBILDT Margin (%)	15.35	10.49	3.91
Overall Gearing (times)	2.80	3.77	7.05
Total Outstanding Liabilities/Tangible Net worth (times)	2.95	4.06	7.19
Interest Coverage (times)	4.53	1.93	0.39
Current Ratio (times)	0.90	0.80	0.83
Total Debt/Gross Cash Accruals (times)	4.39	17.00	Negative

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	1,764.85	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	3,154.25	CARE-NP A4 [A Four]
Total		4,919.1	

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