

**Rating Rationale  
Narayani Steels Private Limited**

**Ratings**

<b>Facility/ Instrument</b>	<b>Amount (Rs. In Million)</b>	<b>Rating</b>	<b>Rating Action</b>
Long Term Bank Facilities	143.21	<b>CARE-NP BB [Double B]</b>	Assigned
Short Term Bank Facilities	760.30	<b>CARE-NP A4 [A Four]</b>	Assigned
<b>Total facilities</b>	<b>903.51</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long-term bank facilities and ‘CARE-NP A4’ 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 are constrained by net loss in FY19 (audited, refers to 12 months period ended mid-July 2019), leveraged capital structure and weak debt service coverage indicators. The ratings also factor in NSPL’s 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, derives strength from strong presence of the promoter group in steel sector supported by experienced management team, diverse product range catering to wide spectrum of industries, growth in revenue, established brand and marketing network of the group with country wide presence. The ratings also factor in locational advantage with scope of export and demand of steels products in the country. Ability of the company to manage the growth in the operations & improving the profit margins and rationalization of its debt through efficient working capital management would be the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Weaknesses**

***Growth in revenue, however with net loss in FY19***

During FY18, NSPL’s capacity utilization has been low at 32.10% which improved to 41.28% with first full year operation during FY19. NSPL’s total revenue increased by ~116% to Rs. 1,277 Mn during FY19 over FY18. This increase in revenue was majorly on account of increase in quantity sold in FY19 as during FY18 the company was in operation for ~7 months only. PBILDT of the company increased by ~142% to Rs. 123 Mn in FY19 over FY18 with PBILDT margin of 9.62% in FY19. PBILDT of the company increased in FY19 mainly due to growth in revenue and by scaling up of operations of the company. The company, however booked decline in PAT during FY19 with loss of Rs. 6 Mn compared to PAT of Rs. 15 Mn during FY18. This decline was due to increase in depreciation and substantial increase in interest expense in FY19. NSPL generated Gross Cash Accruals (GCA) of Rs. 52 Mn in FY19

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

up from Rs. 35 Mn in FY18. NSPL has achieved sales of Rs. 598 Mn for 6 months period ended mid-January, 2020.

***Leveraged capital structure and weak debt service coverage indicators***

Debt-equity ratio of the company was moderate at 2.38x at the end of FY18 which reduced to 1.07x at the end of FY19 on back of repayment of term loans along with increase in net worth on infusion of capital of Rs. 68 Mn during FY19. Total gearing ratio of the company was high at 6.69x at the end of FY18 which improved to 5.29x at the end of FY19. NSPL had a moderate interest coverage ratio of 3.70x in FY18 which declined during FY19 to 1.88x due to increase in interest expenses on account of high working capital loans. Total debt/ GCA for FY18 was 15.36x which further increased to 15.55x in FY19.

***Working capital intensive nature of operations***

The operations of the company are working capital intensive in nature. NSPL is involved in manufacturing wide range of steel products by majorly importing raw materials. The company purchases raw materials through Letter of Credit and also has to fund the inventory and debtors which lead to high reliance on working capital limits. During FY19, total debtor turnover days was at 82 days while inventory turnover was at 55 days for the FY19. Total operating cycle of the company was 118 days in FY19 which increased from 69 days in FY18. This has led to high reliance of the company on the bank finance for working capital needs. The average utilisation of working capital limits against drawing power was around 95% during the last 12 months period mid-January, 2019 marked by overutilization of limits against the drawing power in few instances.

***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 the NSPL's 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 along with trading purchases contributed around ~82% of the total operating income of the company during FY19, 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 are linked to USD. The ability of the company to pass through changes in raw material prices to the finished products and managing the foreign exchange fluctuation risks related to raw materials will be the key rating sensitivities.

***Exposure to volatile interest rates***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, the funding from Bank and Financial Institutions to the company is exposed to volatile interest rate.

***Presence in highly fragmented and competitive nature of steel industry***

The iron and steel industry is intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of iron & 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 MS wires, GI wires and related products is low, resulting into low product differentiation in the market. Further, with increase in the capacities of the existing plants and new capacities coming into operation competition has intensified which has resulted into substantial decline in profitability margins of the industry players in the current year. 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.

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

Although NSPL commenced its operations from FY18, 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 also has 15 hardware outlets across the country which are strongly contributing 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 15 years and looks after the whole group's accounting and finance.

***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.

***Established brand and marketing network of the group with country wide presence***

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.

***Locational advantage and scope of export***

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 remains a positive point leading to savings in huge freight cost. Upon favorable market conditions in the future, it can also exploit the opportunity of exporting its products such as GI wire and Barbed wire to nearby places of India.

***Demand of steels products in the country***

Nepalese economy is developing and growing, and is in phase of investment in infrastructure sectors, power sector and tourism sector. It is highly probable that the national economy will be in need of construction materials in developing public as well as private infrastructures, road, bridges and other public facilities. Further, followed by devastating earthquake of April 2015, Government commitment towards infrastructure and rebuilding the housing sector has increased demand of iron and steel products in Nepal. As a result of increased development works, demand for iron and steel is expected to grow by 10% annually.

***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 during the last 2 years is as follows:***

	<i>(Rs. In Million)</i>	
<b>For the year ended Mid July</b>	<b>FY18 (A)</b>	<b>FY19 (A)*</b>
Income from Operations	590	1,277
PBILDT	51	123
PAT	15	(6)
Overall Gearing (times)	6.69	5.29
Interest coverage (times)	3.70	1.88

\*Audited

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

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	143.21	<b>CARE-NP BB</b>
Short Term Bank Facilities	Working Capital Loan	760.00	<b>CARE-NP A4</b>
Short Term Bank Facilities	Non fund-based limits	0.30	<b>CARE-NP A4</b>
<b>Total</b>		<b>903.51</b>	