

## Rating Rationale Narayani Strips Private Limited

### Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating	Rating Action
Long Term Bank Facilities	831.68	<b>CARE-NP BB- [Double B Minus]</b>	<b>Assigned</b>
Short Term Bank Facilities	4,516.21	<b>CARE-NP A4 [A Four]</b>	<b>Assigned</b>
<b>Total facilities</b>	<b>5,347.89</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (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 Strips Private Limited (NSPL).

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of NSPL are constrained by low operational performance and subdued profitability in FY19 (audited, refers to 12 months period ended mid-July 2019) with net loss, leveraged capital structure and weak debt service coverage indicators. The rating also factors 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, however, derive 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 the revenue, established brand and marketing network of the group with country wide presence, demand of steel products in the country and locational advantage with scope of export. Ability of the company to pass through changes in raw material prices to the customers to improve the operating profit margins and rationalization of its debt through efficient working capital management will be the key rating sensitivities.

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

***Growth in revenue, however with lower level of operation and subdued profitability in FY19 with net loss***

NSPL’s capacity utilization was low at 20.53% during FY19 up from 9.74% during FY18 on enhanced capacity of 4,22,400 MTPA. NSPL’s total revenue increased by ~33% to Rs. 3,833 Mn during FY19 majorly due to increase in sales quantity followed by increase in average price realization. Despite growth in revenue, PBILDT of the company declined to Rs. 329 Mn in FY19 from Rs. 411 Mn in FY18 on back of reduced PBILDT margin of 8.58% in FY19 from 14.28% in FY18. PBILDT of the company decreased in FY19 majorly on account of increase in cost of goods sold as % of net sales. NSPL reported net loss of Rs. 92 Mn during FY19 compared to PAT of Rs. 62 Mn during FY18. This was majorly on account of reduced PBILDT coupled with increase in interest expenses on increased working capital loan availed by

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

the company to fund operations of the company. NSPL generated Gross Cash Accruals (GCA) of Rs. 219 Mn in FY18 which reduced to Rs. 48 Mn during FY19 as a result of net loss.

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

Debt-Equity ratio of the company was moderate at 1.77x at the end of FY19, which increased from 1.70x at the end of FY18. This was due to decline in net worth in FY19 due to loss incurred during the year which was however partially offset by repayment of term loans and infusion of equity by the promoters. Total Gearing Ratio of the company was high at 6.92x at the end of FY18 which further deteriorated during FY19 to 10.54x due to increased debt levels as a result of high utilization of working capital limits. NSPL had a moderate interest coverage ratio of 2.75x in FY18 which further reduced during FY19 to 1.18x. Total debt/ GCA of the company deteriorated and was high at 62.55x in FY19 due to lower GCA of Rs. 48 Mn in FY19 along with increase in working capital loans.

***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, debtor turnover days was at 59 days whereas inventory turnover was at 132 days. Total operating cycle of the company was 170 days in FY19 which increased from 53 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 84.79% during last 12 months period ended mid-January, 2020 marked by overutilization of limits against the drawing power in few instances.

***Raw material price volatility risk and foreign exchange fluctuation risk***

Hot Rolled/Cold Rolled (HR/CR) Coils, HR/CR Slits and Cold Rolled Full Hard (CRFH) Coils are the major raw materials for NSPL and are majorly imported from India. The prices 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 along with trading purchases contributed around 88% 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 of imported raw materials 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, funding from Bank and Financial Institutions 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 M.S. black, stainless pipes, sheets & 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 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 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 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 15 years and looks after the whole group's accounting and finance.

***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.

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

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.

***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.

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

The plant site is located in Chhatapipra, Simara, 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. Upon favorable market conditions in the future, it can also exploit the opportunity of exporting its products such as pipes and sheets to India and Bhutan.

**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 Chhatapipra, Bara, 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:

(Rs. Million)

<b>For the year ended Mid-July</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Income from Operations	882	2,879	3,833
PBILDIT	50	411	329
PAT	7	62	(92)
Overall Gearing (times)	3.63	6.92	10.54
Interest Coverage (times)	2.14	2.75	1.18

\*Audited

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

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	481.68	CARE-NP BB-
Long Term Bank Facilities	Term Loan (Proposed)	350.00	CARE-NP BB-
Short Term Bank Facilities	Working Capital Limit	2,118.21	CARE-NP A4
Short Term Bank Facilities	Letter of Credit	2,398.00	CARE-NP A4
<b>Total</b>		<b>5,347.89</b>	