March 2021

Rating Rationale

Narayani Rolling Mills Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating[1]	Rating Action
Short Term Bank Facilities	2,340.00	CARE-NP A4 [A Four]	Reaffirmed
Total facilities	**2,340.00 (Reduced from Rs. 2,540 Mn)**		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of NRPL factors in deteriorated financial performance of the company during FY20 (audited, refers to 12 months period ended mid-July 2020) characterized by decline in sales and PBILDT along with net loss due to impact of Covid-19 coupled with leveraged capital structure and weak debt service coverage indicators at the end of FY20, however with significant improvement in H1FY21 (provisional, refers to 6 months period ended mid-January 2020).The ratings continue to factor in NRPL'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. 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.

Impact of COVID-19 on the operations and financials of the company

With the outbreak of Coronavirus disease 2019 (COVID-19) recognized as Pandemic by World Health Organization on March 11, 2020, which has affected Nepal as well, the Government of Nepal (GoN) had imposed travel restrictions and countrywide lockdown since March 24, 2020 till June 14, 2020. During the lockdown period, sales of the company has been directly impacted in FY20. However, with government easing restriction for various activities recently, operations, revenue and profitability of the company is also expected to improve in FY21.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

[1]*Complete definitions of the ratings assigned are available at www.careratingsnepal.com*

Deteriorated financial performance of the company during FY20 characterized by decline in sales and PBILDT along with net loss, however improvement in profitability during H1FY21

NRPL had moderate capacity utilization of 60% in FY19 which however reduced to 51% in FY20. Manufacturing operations of NRPL has been impacted by lockdown imposed by the GoN leading to decline in revenue by ~22% in FY20 to Rs. 2,794 Mn. With decline in total revenue, PBILDT and PBILDT margin of the company also declined in FY20. NRPL reported net loss in FY20. With higher utilization of working capital loans, interest expense of the company increased in FY20. During H1FY21, the capacity utilization of the company has improved to ~66% with NRPL booking total revenue of Rs. 1,453 Mn and PBILDT margin improved to 8.01% mainly due to improvement in the average price realization for its products during the period.

Leveraged capital structure and weak debt service coverage indicators at the end of FY20, however improvement in H1FY21

The company doesn't have any long-term loan due to which debt equity ratio was nil at the end of FY20. Total Gearing Ratio of the company was high at 7.34x at the end of FY20 which deteriorated from 5.19x at the end of FY19 due to decline in networth during FY20, however partially offset by decline in working capital loans at year end. With further decline in utilization of working capital loans as well as improvement in the networth upon net profit in H1FY21, overall gearing ratio has improved to 4.23x. NRPL had low interest coverage ratio of 0.49x in FY20 which improved substantially to 3.84x in H1FY21. Total debt to Gross Cash Accruals was high at 14.67x in H1FY21 which was negative in FY20.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature as NRPL manufactures wide range of steel products by majorly importing raw materials through Letter of Credit. Also, NSPL has to fund inventory and debtors which lead to high reliance on working capital limits. Total operating cycle of the company was 188 days in FY20 which increased from 141 days in FY19 due to increase in inventory days leading to high reliance of the company on the bank finance for working capital needs. The average utilisation of fund-based working capital limit against drawing power was around 85% during last 12 months period ended mid-January, 2021.

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 profitability margins. The raw material cost along with trading purchases contributed around 92% of the total operating income of the company during FY20, 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. NRPL incurred foreign exchange loss of Rs. 15 Mn during FY20 compared to Rs. 22 Mn during FY19. 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.

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. 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 TMT bars 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 completion has intensifies which has resulted into substantial decline in profitability margins of the industry players in FY20.

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 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 NRPL and also the Chairman of the Keyal group of companies has more than 30 years of experience in trading and manufacturing industry. Mr Anuj Keyal, Director, joined the business 6 years back and is involved in setting up all the new plants within the group.

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

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.

Demand of steels products in the country

Nepalese economy is developing and growing and is in phase of investment in infrastructure, power sector and tourism sector. In the budget presented by finance minister of Nepal for FY21, government has allocated Rs. 55 Bn for reconstruction with major focus towards development of health sectors, tourism sectors and other infrastructure development. However, with economic activities affected by COVID-19 pandemic, demand for steel may be subdued in short term, but with government focus on infrastructure, demand is likely to grow in long run. Government's high emphasis on infrastructure development and power sector in the budget for FY20-21 is likely to benefit the steel manufacturers like NRPL.

Locational advantage

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 NRPL are imported from India, the factory's proximity to the border remains a positive point leading to savings in huge freight cost.

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 Chhatapipra, 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 and H1FY21 is given below:

(Rs. Million)

For the year ended Mid-July	FY18	FY19	FY20	H1FY21
	(Audited)			(Unaudited)
Income from Operations	4,698	3,584	2,794	1,453
PBILDT Margin (%)	4.27	5.66	2.72	8.01
Overall Gearing (times)	3.20	5.19	7.34	4.23
Interest Coverage (times)	2.54	1.44	0.49	3.84
Current Ratio (times)	1.07	1.01	0.92	0.92
Total Debt/Gross Cash Accruals (times)	12.36	388.70	(15.49)	14.67

Analyst Contact	Group Head	Relationship Contact
Mr. Utsav Baral utsav.baral@careratingsnepal.com Tel No.: +977-01-4012628	Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4012629	Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4012628/29/30

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Short Term Bank Facilities	Fund Based Limit	90.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	2,250.00	CARE-NP A4
Total		**2,340.00**	