

**Rating Rationale**  
**Narayani Strips Private Limited**

**Rating**

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	737.86	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	4,516.47	CARE-NP A4 [A Four]	Reaffirmed
<b>Total facilities</b>	<b>5,254.33 (Reduced from Rs. 5,347.89 Mn)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of ‘CARE-NP BB-’ assigned to the long-term bank facilities and ‘CARE-NP A4’ assigned to the short-term bank facilities of Narayani Strips Private Limited (NSPL).

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities of NSPL factors in deteriorated financial performance of the company during FY20 (audited, refers to 12 months period ended mid-July 2020) mainly due to impact of Covid-19, characterized by decline in sales and PBILDT along with net loss as well as 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 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, 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.

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

With the outbreak of Coronavirus disease 2019 (COVID-19) recognised 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**

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

The capacity utilization of NSPL was low at 20.53% in FY19 which has further reduced to 15.94% in FY20. Manufacturing operations of NSPL has been impacted by lockdown imposed by the GoN resulting decline in total revenue by ~16% in FY20 to Rs. 3,219 Mn. With decline in revenue, PBILDT and PBILDT margin of the company also declined in FY20. Following decline in PBILDT and increase in interest and depreciation expenses, NSPL incurred net loss in FY20 compared to net profit in FY19. During H1FY21, capacity utilization of the company was low at 16.43% with company booking total revenue of Rs. 1,648 Mn and improvement in PBILDT margin to 13.79% mainly due to improvement in the average price realization for its products.

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

Debt-Equity ratio of the company was high at 2.49x at the end of FY20 which deteriorated from 1.25x at the end of FY19 due to disbursement of term loan to fund capital expenditure followed by decline in networth of the company. Total Gearing Ratio of the company was high at 10.07x at the end of FY20 which deteriorated from 7.48x at the end of FY19. Further, with lower utilization of working capital loans during H1FY21, overall gearing ratio has improved to 5.91x. NSPL had a low interest coverage ratio of 0.90x in FY20 which has improved to 2.72x in H1FY21.

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

The operations of the company are working capital intensive in nature as NSPL 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 229 days in FY20 which increased from 163 days in FY19 due to increase in inventory days as well as collection period 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 90% during last 12 months period ended mid-January, 2021.

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

The major raw materials for NSPL 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 which has a bearing on its profitability margins. The raw material cost along with trading purchases contributed around 91% 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. NSPL incurred foreign exchange loss of Rs. Rs. 1 Mn during FY19 which has increased to Rs. 5 Mn in FY20. 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 like 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 other industry players in FY20.

***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 16 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, 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 NSPL.

***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 and H1FY21 is given below:

For the year ended Mid-July	FY18	FY19	FY20	H1FY21
	(Audited)			(Unaudited)
Income from Operations	2,879	3,833	3,219	1,648
PBILD Margin (%)	14.28	8.58	8.04	13.79
Overall Gearing (times)	6.92	7.48	10.07	5.91
Interest Coverage (times)	2.75	1.18	0.90	2.72
Current Ratio (times)	0.96	0.89	0.89	0.85
Total Debt/Gross Cash Accruals (times)	10.58	62.55	(90.19)	19.79

(Rs. Million)

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

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. In Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Term Loan	737.86	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	1,118.47	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	3,398.00	CARE-NP A4
<b>Total</b>		<b>5,254.33</b>	