

## Narayani Strips Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	<b>642.00</b> (Decreased from Rs. 737.86 Mn)	<b>CARE-NP BB</b> [Double B]	<b>Revised from</b> <b>CARE-NP BB-</b>
Short Term Bank Facilities	<b>5,013.00</b> (Increased from Rs. 4,516.47 Mn)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>5,655.00</b> (Five Thousand Six Hundred and Fifty-Five Million Only)		

Details of instruments/facilities in Annexure-1

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

#### Detailed Rationale & Key Rating Drivers

The revision in long term rating assigned to the bank facilities of NSPL factors in the overall improvement in financial risk profile of the company in FY21 (Audited, refers to 12 month's period ended mid-July 2021). The ratings, also 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.

The ratings, however, continue to be constrained by leveraged capital structure of the company, 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.

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

##### Leveraged capital structure

The company had leveraged capital structure due to high dependence on working capital borrowings and term loan taken by the company to setup the manufacturing facilities and capex undertaken in recent past. As on Mid-July 2021, the overall gearing ratio of the company stood high at 2.80x (PY:10.07x; including acceptances of letter of credit). The overall gearing has shown improvement on account of increase in net-worth due to plough back of profit into business and lower utilization of working capital loans. Though the overall gearing improved significantly on the balance sheet date of FY21 over previous year balance sheet date, it continued to remain high.

##### Improvement in operating cycle, however high reliance on bank finance for funding the requirement

Total operating cycle of the company improved from 229 days for FY20 to 153 days for FY21 primarily on account of reduction in average collection period from 76 days in FY20 to 47 days in FY21 coupled with reduction in average inventory holding period to 112 days in FY21 from 168 days in FY20. The reduction in collection period was on account of management focus towards cash sales. Inventory holding period of the company though reduced continued to remain high at 3.5 to 4 months as being a manufacturer, NSPL is required to maintain adequate inventory of material on account of lead time for purchases and to ensure regular supply of raw materials for uninterrupted manufacturing operations. The company imports its raw material mainly from India backed by normally sight letter of credit leading to low average payable period. All this leads to high reliance of the company on the bank finance for working capital requirements. The average monthly outstanding of fund-based working capital limit against drawing power was around 88% during last 12 months period ended mid-January 2022.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**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 82% 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**

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be changed by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

**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.

**Stabilization of operations and improved financial risk profile during FY21**

For the period of FY19-FY21, total operating income (TOI) of the company has grown from Rs. 3,833 Mn in FY19 to Rs. 4,140 Mn in FY21 (Audited, refers to 12 months period ended mid-July 2021); however, with decline reported in FY20 due to impact of Covid-19 on the business. NSPL's TOI improved by 29% from Rs. 3,219 Mn in FY20 majorly due to improvement in average price realization.

PBILDT in FY21 stood at Rs. 635 Mn, with improvement in PBILDT margin to 15.35% from 8.04% in FY20 primarily on account of economies of scale and inventory gains. With the improvement in PBILDT and decline in interest expense due to lower utilization of working capital borrowings, net profit of the company improved to Rs 301 Mn from net loss in FY20. GCA of the company also increased and stood at Rs. 453 Mn in FY21 as against cash losses.

**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.

#### Locational advantage with established brand and marketing network

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. 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.

#### 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:

#### Financial Performance

Particulars	FY19	FY20	FY21
	Audited	Audited	Audited
Income from Operations	3,833	3,219	4,140
PBILDT Margin (%)	8.58	8.04	15.35
Overall Gearing (times)	7.48	10.07	2.80
Interest coverage (times)	1.18	0.90	4.53
Current Ratio (times)	0.89	0.89	0.90
Total Debt/Gross Cash Accruals (times)	62.55	(90.19)	4.38

(Rs. in Mn)

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	642.00	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	1,165.00	CARE-NP A4
Short Term Bank Facilities	Non-Fund Based Limit	3,848.00	CARE-NP A4
<b>Total Facilities</b>		<b>5,655.00</b>	

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