

## Narayani Rolling Mills Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Short Term Bank Facilities	1,749.50 (Decreased from 2,340.00)	CARE-NP A4 [A Four]	Revised from CARE-NP A4+
Total Facilities	1,749.50 (One Billion Seven Hundred Forty-Nine Million and Five Hundred Thousand Only)		

*Details of instruments/facilities in Annexure 1*

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

### Detailed Rationale & Key Rating Drivers

The revision in short term rating assigned to the bank facilities of NRPL takes into account overall deterioration in the financial performance of the company during FY22 (Audited, FY refers to the twelve-month period ended mid-July) coupled with challenging operational environment leading to prospect of further moderation during FY23. The ratings continue to be constrained 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, continue to 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.

*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

**Moderate financial performance of the company during FY22 marked by improvement in sales, however decline in profitability indicators of the company**

NRPL's total revenue improved by ~16% in FY22 to Rs. 3,440 Mn majorly due to increase in overall average price realization of its products. Increase in average sales realization was offset by raw material consumption cost resulting in deterioration in PBILDT margin. Total revenue is mainly contributed by TMT bars contributing around 26% of total revenue followed by cold torkari, angles and flats contributing around 51% in FY22. With high cost of goods sold, PBILDT margin of the company deteriorated from 5.59% in FY21 to 3.84% in FY22. Accordingly, PBILDT also deteriorated by ~20% in FY22 to Rs. 133 Mn. NRPL reported net profit of Rs. 33 Mn during FY22 compared to Rs. 69 Mn in FY21. However, with decline in short term loan, interest expense of the company increased from Rs. 43 Mn in FY21 to Rs. 57 Mn in FY22 on account of liquidity crisis in FY22 leading to increase in interest rates. Accordingly, GCA of the company was Rs 64 Mn during FY22 from Rs. 105 Mn during FY21.

#### Leveraged capital structure, however improved in FY22

The company doesn't have any long-term borrowings and debt is mainly in the form of working capital borrowings. Overall gearing ratio of the company was high at 2.87x at the end of FY22 which improved from 4.07x at the end of FY21. The improvement in capital structure is mainly attributed to lower utilization of working capital loans during the year and increase in networth base due to accretion of profits to reserves. NRPL had moderate interest coverage ratio of 2.33x in

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

FY22 which however, deteriorated from 3.90x in FY21 due to increase in interest expenses. With deterioration in GCA of the company during FY22, Total debt/ GCA was 14.91x in FY22.

#### **Exposure to 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 95% of the total operating income of the company during FY22, 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. 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 pricetakers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

#### **Exposure to volatile interest rate**

Sustained requirement for short-term working capital borrowings results in a high interest expense for NRPL. The company's interest rates are based on a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Sustained high interest rates, as seen over the last year or so, add to the interest burden of the company, squeezing its profitability and impacting its liquidity position. However, Nepal Bankers Association's decision to lower premium on loans by 1% from March 2023 could provide some relief. Nevertheless, funding taken by the company remains exposed to volatile interest rate.

#### **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 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 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.

### Improvement in operating cycle

Total operating cycle of the company improved to 89 days in FY22 from 147 days in FY21 mainly due to decrease in average collection and inventory days. The reduction in collection period was on account of management focus towards cash sales. Average inventory holding period improved significantly to 67 days in FY22 from 105 days in FY21. Further, credit period allowed to the company during FY22 was at 4 days. 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 sanctioned limit was around 50% during last 12 months period ended mid-January 2023.

### Locational advantage with established brand and marketing network

The plant site is located in Chatapipra, Bara, 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.

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.

### 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 Chatapipra, 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 is given below:

### Financial Performance

(Rs. Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	2,794	2,974	3,440
PBILDT Margin (%)	2.72	5.59	3.85
Overall Gearing (times)	7.03	4.07	2.87
Total Outstanding Liabilities/Tangible Net worth (times)	7.48	4.22	3.00
Interest Coverage (times)	0.49	3.90	2.33
Current Ratio (times)	0.92	0.90	0.86
Total Debt/Gross Cash Accruals (times)	-15.49	11.28	14.91

A: Audited

### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Fund Based Limits	85.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non Fund Based Limits	1,664.50	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,749.50</b>	

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