

## Narayani Steels Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	119.50 (Decreased from 151.50)	CARE-NP BB [Double B]	Revised from CARE-NP BB+
Short Term Bank Facilities	1,250.00	CARE-NP A4 [A Four]	Revised from CARE-NP A4+
<b>Total Facilities</b>	<b>1,369.50 (One Billion Three Hundred Sixty-Nine Million and Five Hundred Thousand Only)</b>		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has revised the ratings to 'CARE-NP BB' for the long term bank facilities and to 'CARE-NP A4' for the short term bank facilities of Narayani Steels Private Limited (NSPL).

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of NSPL 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 by leveraged capital structure, 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.

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.

*Going forward, the ability of the company to profitability scale 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

#### Decline in revenue in FY22 along with deterioration in profitability indicators of the company

Total revenue of the company decreased by ~3% to Rs. 1,608 Mn in FY22 from Rs. 1,658 Mn in FY21. This decrease was majorly due to decrease in total quantity sold by 18.27% to 13,970 MT from 17,092 MT in FY21. However, it was partially offset by increase in overall average price realization for the products to Rs. 114,964 Mn in FY22 from Rs. 96,993 Mn in FY21. With decrease in total revenue, PBILDT of the company deteriorated in FY22 by ~51% to Rs. 74 Mn with decline in PBILDT margin to 4.63% in FY22 compared to 9.17% in FY21. On account of deterioration in PBILDT and increase in interest expense to Rs 61 Mn in FY22 from Rs 29 Mn in FY21, company reported net loss of Rs. 32 Mn in FY22 as compared to net profit of Rs. 67 Mn in FY21. Interest cost increased on account of increase in interest rates due to liquidity crisis in FY22. With net loss booked by the company during FY22, company generated GCA of Rs. 11 Mn compared to Rs.102 Mn in FY21.

#### Leveraged capital structure

Total gearing ratio of the company was highly leveraged at 3.33x at the end of FY22 which deteriorated from 3.27x at the end of FY21. This was majorly due deterioration in net worth of the company on account of losses during FY22. NSPL had low interest coverage ratio of 1.23x in FY22 which deteriorated from 5.31x in FY21 due to deterioration in PBILDT followed by increase in interest expenses to Rs 61 Mn in FY22 from Rs.29 Mn in FY21 on account of increase in average interest

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

rate in FY22. Total debt/ GCA for FY22 was high at 60.62x decreased from 7.09x in FY21 on account of deterioration in GCA.

#### **Exposure to raw material price volatility risk and foreign exchange fluctuation risk**

Wire Rod, Zinc Ingot and Lead Ingot are the major raw materials for NSPL and 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 which has a bearing on its profitability margins. The raw material cost contributes around 95% 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 pricetakers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

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

The company has substantial interest outgo lined up over the next couple of years amid relatively high debt levels. 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**

Although NSPL commenced its operations only in July 2018, 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 the Keyal group of companies is also the chairman of NSPL and 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.

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

Total operating cycle of the company was 99 days in FY22 which decreased from 128 days in FY21 mainly due to decrease in inventory days and debtor days. Average debtor collection period of the company was at 51 days in FY22 decreased from 57 days in FY21 majorly due to shift of the company towards cash sales minimizing their credit sales post lockdown. Also, average inventory days decreased to 53 days in FY22 from 76 days in FY21. Further, credit period allowed to the company during FY22 was at 5 days. The company imports its raw material mainly from India and mainly backed by 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 utilisation of fund-based working capital limit against sanctioned limit was around 90% during the last 12 months period mid-January, 2023.

### Diverse product range catering to wide spectrum of industries

NSPL has been manufacturing various types of wires such as GI wires, MS wires, Barbed wires and other allied products which are produced in various variants as per the demand in the market. Barbed wires are majorly used for border security as well as in industrial and household security purposes. GI wires, having various household, industrial and engineering applications, are majorly used for making GI wire net and variants which are used in gabion walls for preventing soil erosion in roads, in surrounding households and industries and in hydropower projects. 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.

### Locational advantage with established brand and marketing network

The plant site is located in Chorni, Parsa, around 15 Kms from Indo-Nepal border in Birgunj dry-port. Since majority of raw materials used by NSPL are imported from India, the factory's proximity to the border argues well for importer and provides a competitive advantage in terms of savings in freight cost.

The company sells wires, nails 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 which makes it easier to penetrate into the market and cater to large section of customers. Also, the group already has 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 Steels Private Limited (NSPL) is a private limited company incorporated on April 30, 2004 for manufacturing of wires, nails and other allied steel products at factory located in Chorni, Parsa, 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 company commissioned operations in December 2018 with capacity of 65,000 MTPA. Brief financials of NSPL during last 3 years is given below:

### Financial Performance

(Rs. Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,332	1,658	1,608
PBILD Margin (%)	6.70	9.17	4.63
Overall Gearing (times)	5.43	3.27	3.33
Total Outstanding Liabilities/Tangible Net worth (times)	5.60	3.41	3.59
Interest Coverage (times)	1.29	5.31	1.23
Current Ratio (times)	0.90	0.98	0.64

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Total Debt/Gross Cash Accruals (times)	41.34	7.09	60.62

A: Audited

#### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	119.50	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	1,250.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>1,369.50</b>	

#### Contact Us

##### Analyst Contact

Ms. Poonam Agarwal

+977-01-4012630

[poonamagarwal@careratingsnepal.com](mailto:poonamagarwal@careratingsnepal.com)

Mr. Santosh Pudasaini

+977-01-4012628

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

##### Relationship Contact

Mr. Achin Nirwani

+977-9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

#### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.