

Narayani Strips Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	557.66 (Decreased from 642.00)	CARE-NP BB- [Double B Minus]	Revised from CARE-NP BB
Short Term Bank Facilities	4,513.00 (Decreased from 5,013.00)	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	5,070.66 (Five Billion Seventy Million and Sixty-Six Hundred Thousand Only)		

Details of instruments/facilities in Annexure 1

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

Deteriorated financial performance of the company during FY22 characterized by decline in sales and PBILDT

NSPL's total revenue decreased by ~12% during FY22 to Rs. 3,648 Mn from Rs. 4,140 Mn. However, there was improvement in overall average price realization which was offset by decline in quantity sold. With decline in revenue and increase in cost of goods sold in FY22, PBILDT of the company also deteriorated by ~40% in FY22 to Rs. 383 Mn with decline in PBILDT margin to 10.49% in FY22 from 15.35% in FY21. With deterioration in PBILDT coupled with increase in interest expense of the company to Rs 199 Mn in FY22 from Rs.140 Mn in FY21, NSPL incurred net profit of Rs. 72 Mn during FY22 compared to Rs. 301 Mn in FY21. Interest expenses of the company increased in FY22 majorly due to increase in working capital loans and LC payables. With this, GCA of the company deteriorated to Rs. 166 Mn during FY22 as compared to Rs. 453 Mn during FY21. The company also paid dividend of Rs. 53 Mn during FY22.

Leveraged capital structure

Total Gearing Ratio of the company was highly leveraged at 3.76x at the end of FY22 which increased from 2.80x at the end of FY21. This increase was due to increase in working capital loans, LC payable and other short-term loans to Rs

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

2,822 Mn in FY22 from Rs. 1,985 Mn in FY21. NSPL had modest interest coverage ratio of 1.93x in FY22 which deteriorated from 4.53x in FY21 due to increase in interest expenses along with deterioration in PBILDT. Total debt/ GCA of the company deteriorated to 16.99x during FY22 from 4.39x in FY21.

Elongated operating cycle with high reliance on bank finance for funding the requirement

Total operating cycle of the company was around 5 months in the last 2 financial years (FY21 & FY22). The company has high operating cycle mainly due to high inventory days due to high lead time for import of raw material. Further, the company has to maintain inventory for smooth operations and extend credit to their dealers, which lead to high reliance on working capital limits. Average inventory days was 112 days in FY21 which increased to 125 days in FY22. Average collection period remained almost same at 47 days during FY22 and FY21. The company imports its raw material mainly from India and backed by sight letter of credit leading to low average payable period of 14 days for FY22. The average utilisation of fund-based working capital limit against sanctioned limit was around ~68% during last 12 months' period ended mid-January, 2023.

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 87% 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 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.

Locational advantage with established brand and marketing network

The plant site is located in Chorni, Parsa 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.

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.

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 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 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

(Rs. Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	3,219	4,140	3,648
PBILDT Margin (%)	8.04	15.35	10.49
Overall Gearing (times)	10.07	2.80	3.77
Total Outstanding Liabilities/Tangible Net worth (times)	10.33	2.95	4.06
Interest Coverage (times)	0.90	4.53	1.93
Current Ratio (times)	0.89	0.90	0.80

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Total Debt/Gross Cash Accruals (times)	-90.19	4.39	17.00

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	557.66	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund/Non-Fund Based Limits	4,513.00	CARE-NP A4 [A Four]
Total		5,070.66	

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About CARE Ratings Nepal Limited:

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