

Narayani Steels Limited

December 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	97.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short-term Bank Facilities	100.00	CARE A3 (A Three)	Assigned
Total Facilities	197.50 (Rupees one hundred and ninety seven crores and fifty lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Narayani Steels Limited (NSL) derive strength from experienced promoters & management team, established and long track record of operations in steel trading, long standing relationships with customers and suppliers, one of the major distributors of Rashtriya Ispat Nigam Limited (RINL), diversified product range and healthy growth in total operating income and stable profitability margins FY15-FY17 (refers to the period April 1 to March 31). The ratings, however, are tempered by leveraged capital structure, moderate debt coverage indicators, low entry barrier along with stiff competition in trading business, working capital intensive nature of the business, susceptibility to price fluctuation of steel products and exposure to cyclical nature inherent in the steel industry.

The company's ability to improve profitability margins along with growth in total operating income and improvement in the capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters & Management team

Mr. Kishanlal Choudhary who founded the company in the year 1996, currently serves as the chairman and non-executive director of the company. Mr. Sunil Kumar Choudhary is the managing director and the Chief Executive Officer of the company; he looks after the overall business operations of the company. Both of them have more than two decades of experience in the Iron & Steel industry. Further, they are ably supported by Mr. Bivor Bagaria, a qualified chartered accountant who has an overall experience of over a decade and takes care of finance. Moreover, the management team comprises of professionals having significant experience in the related domain of business operations.

Established and long track record of operations with Diversified product range

The company has a long track-record of operations in steel trading business for more than two decades and has established a strong market position in the industry. The group commenced its business with trading of blooms and billets. With subsequent addition to the portfolio over the years, the company has been able to increase its scale of operations. The group is now engaged in trading of blooms, billets, TMT bars, pellets, wire coils and manufacturing of TMT bars and other long products such as rounds, flats, angles, channels, etc. Further, the group maintains the range of all the products in different sizes, thickness and quality. Rebars and Structural contributed 73.67% of the total income in FY17 (64.73% in FY16) and Blooms and Billets contributed 23.01% of the total income in FY17 (31.66% in FY16).

Long standing relationships with customers and suppliers

Narayani group has an established customer base of more than 3000 customers with long standing relationships of about 20 years. The customer base is diversified with no single customer contributing more than 7.72% of net sales in FY17 and top six customers contributing ~25% of the total operating income in FY17. Further, NSL is registered vendors with Rashtriya Ispat Nigam Limited (RINL) and are sole distributors of few products.

Healthy growth in total operating income and stable profitability margins

The total operating income of the company increased from Rs. 504.22 crore during FY16 to Rs. 775.63 crore during FY17 registering a Y-o-Y growth of 53.82 % during FY17 mainly due to increased demand for TMT bars, rounds, squares, angles and flats in the market from the existing as well as new clients. The PBILDT margin of the company ranged between 2.34% - 2.77% during FY15 – FY17 due to stiff competition in the steel trading business. PAT margins of the company ranged between 0.24% - 0.27% during FY15-FY17.

Key Rating Weaknesses

Leveraged capital structure with moderate debt coverage indicators

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Capital structure of the company is moderately leveraged marked by overall gearing which stood at 2.90x as on March 31, 2017 (2.74x as on March 31, 2016) owing to high reliance on working capital borrowings. Interest coverage ratio remained stable at 1.24x as on March 31, 2017 (1.20x as on March 31, 2016). Further, total debt to GCA stood significantly high at 56.85x as on March 31, 2017 (58.40x as on March 31, 2016).

Low entry barrier along with stiff competition in trading business

The steel trading industry is characterized by low entry barriers owing to minimal capital requirement, which has resulted in proliferation of large number of small and large traders spread across the country. This has led to intense competition in the industry.

Working Capital intensive nature of the business

NSL operates in a working capital intensive industry where in reliance on working capital facility for the day to day operations remains high. The company receives a 30 day credit period for the traded goods procured from Rashtriya Ispat Nigam Limited (RINL), whereas other suppliers provide a credit period of 30 - 45 days. The group maintains an average inventory of 20 to 30 days which are generally order backed, mitigating the price fluctuation risk to a certain extent. On the other hand, the group allows a credit period of 60 to 75 days. The working capital requirements are largely met through bank borrowings which remained high for the last 12 months period ended Sep, 2017.

Susceptibility to price fluctuation of steel products

Prices of steel products are volatile in nature and are driven by the demand supply scenario prevailing on a particular day and also by the global prices. NSL is engaged in the trading of various steel products. Further any adverse fluctuation in the prices may affect the profitability margins of the company, which are on a lower side due to the trading nature of operations. However, the price fluctuation risk is mitigated to certain extent as the company maintains back-to-back order arrangement where company places order with suppliers upon receipt of order from its customers.

Exposure to cyclicity inherent in the steel industry

The prospects of the steel industry are strongly correlated to economic cycles. Demand for steel products is sensitive to trends of particular industries, such as automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. When downturns occur in these economies or sectors, steel industry generally witness steep decline in demand, which also lead to a decrease in steel prices.

Analytical approach: Standalone. NSL is part of Narayani group; the group comprises of four companies namely Narayani Steels Limited (NSL), Narayani Ispat Private Limited (NIPL), Hari Equipment Private Limited (HEPL) and Kedarnath Commotrade Private Limited (KCPL), and all of them are operating in similar line of business and are managed by same promoters. Hence while arriving at the rating CARE has factored in group's established brand name, management bandwidth and financial flexibility.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1996, Narayani Steels Limited (NSL) was promoted by Mr Kishanlal Choudhary who has more than 2 decades of experience in the Iron and Steel Industry. He is ably supported by his son Mr. Sunil Choudhary, who is the managing director and chief executive officer with an overall experience of 20 years. During FY17, Narayani Steels Limited (NSL) got listed through SME platform of Bombay stock exchange. NSL is part of Narayani group; the group comprises of four companies namely Narayani Steels Limited (NSL), Narayani Ispat Private Limited (NIPL), Hari Equipment Private Limited (HEPL) and Kedarnath Commotrade Private Limited (KCPL). Narayani group is engaged in trading of blooms, billets, TMT bars, pellets, wire coils and manufacturing of TMT bars and other long products such as rounds, flats, angles, channels, etc. Narayani group is one of the major distributors of Rashtriya Ispat Nigam Limited. Further, the group has a wide network for the sales and distribution of the products across Andhra Pradesh, Telangana and other states in India.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	504.22	775.63
PBILDT	13.98	19.30
PAT	1.23	2.10
Overall gearing (times)	2.74	2.90
Interest coverage (times)	1.20	1.24

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	25.00	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	75.00	CARE A3
Fund-based - LT-Working Capital Limits	-	-	-	37.50	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	25.00	CARE A3	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	75.00	CARE A3	-	-	-	-
4.	Fund-based - LT-Working Capital Limits	LT	37.50	CARE BBB-; Stable	-	-	-	-

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