

Narayani Steels Limited

December 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	97.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	100.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	197.50 (Rs. One Hundred Ninety-Seven Crore 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 promoters' significant experience in iron and steel industry, established and long track record operations, long standing relationship with suppliers and customers, diversified product range, stable operating income with thin profitability margins, and satisfactory debt coverage indicators. The ratings, however, are tempered by leveraged capital structure, moderate working capital cycle with moderate liquidity, susceptibility to price fluctuations and presence in highly competitive, fragmented and cyclical industry. The company's ability to improve capital structure, efficiently manage its working capital requirements, improve profitability margins along with the operating income and are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter's significant experience in Iron & Steel Industry

Narayani Steels Limited is the flagship company of Narayani Group, incorporated in the year 1996 by Mr. Kishanlal Choudhary, who currently serves as the chairman and non-executive director of the company, he has more than three decades of experience in the Iron & Steel industry. 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 and has two decades of experience. 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.

Diversified product range

Rebars and Structural products contributed 50.21% of the total income in FY18 (73.31% in FY17) and Blooms and Billets contributed 49.06% of the total income in FY18 (22.89% in FY17). Realization from structural and rebars has been stable, while billets and blooms improved in FY18.

Established and long track record of operations

The company has a long track-record of operations in steel trading business since 1996 and has established its market position in the industry. The company commenced its operations with trading of blooms and billets and subsequently increased its product folio. Currently, the company's portfolio consists of blooms, billets, TMT bars, pellets, wire coils and manufacturing of TMT bars and other long products such as rounds, flats, angles, channels, etc.

Long standing relationships with customers and suppliers

Narayani group has an established customer base of more than 3000 customers with no single customer contributing more than 7.69% of net sales in FY18 and top five customers contributing ~28% of the total operating income in FY18. NSL is a registered vendor with Rashtriya Ispat Nigam Limited (RINL) and they are sole distributors of few products of the RINL.

Stable revenues with thin operating profit margin

The total operating income of the company remained stable at Rs.779.11 crore during FY18 (Rs.775.63 crore during FY17). Profitability remains thin since majority of its sales are trading in nature. The PBILDT margin of the company improved 18 bps to 2.67% (Rs 20.77 crore) in FY18 (2.43% (Rs 19.30 crore) in FY17) on account of bulk procurement resulting in cost saving. The higher interest expense eroded gains at PBILDT level resulting in stable PAT margins at Rs 2.05 crore (0.26%) in

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

FY18 as against Rs 2.10 crore (0.27%) in FY17.

Key Rating Weaknesses

Leveraged capital structure albeit satisfactory debt coverage indicators

The debt profile of the company comprises of working capital borrowings and vehicle loans. The overall gearing deteriorated from 2.90x as on March 31, 2017 to 3.31x as on March 31, 2018 on account of increased creditors backed by LC (Rs.74.96 crore as on March 31, 2018 as against Rs.52.39 crore as on March 31, 2017) and increase in additional working capital borrowings to the extent of Rs 8 crore. However, interest coverage ratio remained stable at 1.29x during FY18 (1.24x during FY17) on account of improved operating profit during the period.

Moderate Working Capital cycle having moderate liquidity position

The company maintains an average inventory of up to 20 days which are generally order backed, mitigating the price fluctuation risk to a certain extent. On the other hand, the company allows a credit period of 60 to 75 days. As a result, average utilization of working capital limits has remained at 90% for the past 12 months ended October 2018. Overall the working capital cycle remained stable at 38 days in FY18 compared to 40 days in FY17. The company has free cash balance of Rs 2.37 crore as on March 31, 2018 and fixed deposits (margin money) of about Rs 15.22 crore as on March 31, 2018.

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. 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.

Presence in highly competitive, fragmented and cyclical industry

Demand for steel products is sensitive to trends of industries, such as automotive, construction, infrastructure and consumer durables, which are the main consumers. Steel trading industry has very low entry barrier and there are large numbers of unorganized players in the industry resulting in intense competition. However, the company is able to sustain the competition due to its longstanding relationship with its clientele. Going forward, steel demand in India is likely to revive slightly in the second half of FY18-19 on the back of growth in infrastructure and automobile sectors.

Applicable Criteria

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

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

[Rating Methodology-Wholesale Trading](#)

[Criteria for Short Term Instruments](#)

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

About the Company

Narayani Steels Limited (NSL), which belongs to Narayani Group, is incorporated in the year 1996 by Mr. Kishanlal Choudhary, who is the chairman of the company and 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 got listed through SME platform of Bombay stock exchange in FY17. NSL is part of Narayani group; the group comprises of five companies namely Narayani Steels Limited (NSL), Narayani Ispat Limited (NIL), Hari Equipment Private Limited (HEPL), Kedarnath Commotrade Private Limited (KCPL) and Agrimony Tradex Vyaappar Private Limited (ATVPL).

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. 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)	FY17 (A)	FY18 (A)
Total operating income	775.63	779.11
PBILD	19.30	20.77
PAT	2.10	2.05
Overall gearing (times)	2.90	3.31
Interest coverage (times)	1.24	1.29

A: Audited

Status of non-cooperation with previous CRA: Brickworks Ratings has placed the rating for the bank facilities of NSL under 'Issuer Not Cooperating' in May 2018, due to absence of requisite information from the company.

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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About CARE Ratings:

CARE Ratings 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). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-17)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	25.00	CARE A3	-	1)CARE A3 (05-Dec-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	75.00	CARE A3	-	1)CARE A3 (05-Dec-17)	-	-
4.	Fund-based - LT-Working Capital Limits	LT	37.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-17)	-	-

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