

## Rating Rationale

### Swaminarayan Nirman Sewa Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	56.73	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	1,048.50	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>1,105.23</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of Swaminarayan Nirman Sewa Private Limited (SNSPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNSPL are constrained by small scale of operations with geographically concentrated order book position and tender based nature of operations in highly competitive construction industry. The rating is also constrained by working capital intensive nature of business and high utilization of working capital limits, planned debt funded capital expenditure and exposure to volatile interest rates. The ratings, however, derives strength from experienced promoters in related field, moderate track record in executing diverse construction projects and moderate order book position with mid-term revenue visibility. The ratings also factored in financial risk profile marked by growth in the revenue, profitability and satisfactory debt service coverage indicators during FY18 (refers to 12 months’ period ended mid-July 2018), comfortable capital structure, moderate counter party risk and escalation clause in majority of the contracts. Ability of the company to successfully execute projects in time and recover contract proceeds; and ability of the company to manage healthy revenue growth and maintain profitability margins without deterioration in its financial risk profile will be key rating sensitivities.

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### *Small scale of operations with geographically concentrated order book position and low profitability margins*

The operating income stood relatively smaller albeit grown at the CAGR of ~46% from Rs. 57 Mn in FY15 to Rs. 177 Mn in FY18. The entire operations of the company and its order book are concentrated mainly in the eastern region of Nepal and in road projects which accounts for ~42% of the total order book.

##### *Tender based nature of operations in highly competitive construction industry*

The company receives all its work orders from government departments constituting 100% of its order book position. All the orders are tender-based wherein the company has to quote the bid and hence it has to face the risk of successful bidding for the same, which again comes with the risk of quoting at low price to sustain the

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

competition. The promoters' reasonable industry experience in related field mitigates risk of competition to some extent. Also, there are numerous fragmented and unorganized players operating in this industry which makes the civil construction space highly competitive and the ability of SNSPL to sustain its profitability margins and growth in future remain crucial. Further, the business also remains dependent on stability in government policies and fiscal position of the government.

***Working capital intensive nature of business and high utilization of working capital limits***

The operations of the company are working capital intensive in nature. SNSPL primarily works with the government departments and payments for the contracts are received within 1 month generally. Also, the retention money is deducted from the bills submitted by the company. Further, the operations of the company have increased by ~117% to Rs. 177 Mn in FY18 and it is further expected to increase by ~185% to Rs. 506 Mn in FY19. These factors lead to reliance of the company on bank finance to meet its working capital requirements. The average working capital utilization of the company was at a high level of ~86% for last twelve months ending mid- April, 2019.

***Planned debt funded capital expenditure***

The company has been making regular investments to expand its infrastructure facilities in the past and is expected to continue in future. The purchase of fixed assets in the past was mainly funded through bank finance resulting in increase in debt component. It is projected that the company will take additional loan of Rs. 42 Mn in short period on account of purchase of equipment/machineries for the new projects proposed to be undertaken.

***Exposure to volatile interest rates***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

**Key Rating Strengths**

***Experienced promoters in related fields***

SNSPL is being promoted by Mr. Santosh Kumar Basnet, managing director, who has been leading the company since its inception and has long experience of 20 years in the field of construction business. He is responsible for overall project management, budgeting, project execution and formulating long term strategic vision of the company. Further, the board is supported by an experienced team across various functions.

***Moderate track record in executing buildings, irrigation works***

SNSPL has moderate track record of over 5 years in the construction of buildings, irrigation works, canals, embankment works etc. and have executed several projects mainly in eastern region of Nepal either individually or through its Joint Venture (JV) entities.

***Moderate order book position with mid-term revenue visibility and diversified projects***

As on mid-June 2019, the orders in hand of the company are Rs. 722 Mn. Due to government initiative towards the infrastructure projects, the order book of the company is expected to increase in future. The current order book of the company reflects medium term revenue visibility for the next 2-3 years and is diversified over various projects such as building works, irrigation works, bridge works, water supply works and road works received from various government departments. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for SNSPL.

***Financial risk profile marked by growth in the revenue, profitability and satisfactory debt service coverage indicators***

Financial risk profile of the company is comfortable with increase in scale of operations and high cash accruals during FY18. Consolidated total revenue of the company increased from Rs. 82 Mn in FY17 to Rs. 177 Mn FY18 (~117% growth Y-o-Y) and PBILDT of the company has increased to Rs. 13 Mn in FY18 compared to Rs. 5 Mn in FY17 (~157% growth Y-o-Y) on back of increase in orders and execution of the same. Further, total debt to gross cash accruals and interest coverage also improved from 3.22x and 3.28x respectively in FY17 to 2.08x and 6.60x respectively in FY18. Till mid- June, 2019, total consolidated revenue of the company was Rs. 322 Mn.

***Comfortable capital structure***

The capital structure of the company on consolidated basis was comfortable marked by low debt to equity ratio and overall gearing ratio of 0.39x and 0.80x respectively in FY18 compared to 0.54x and 0.54x respectively in FY17. These ratios were low mainly on account of decline in debt level and increase in tangible Networth base due to accretion of profits in the business.

***Moderate counter party risk***

Revenue of SNSPL is generated from government contracts mainly related to road works, building works, irrigation works, water supply works etc. Payment of dues are generally realized within 1 month. The counter party risk is moderated by the fact that contracts are obtained from government departments and it has been making timely payment to the company in past.

***Escalation clause in majority of the contracts***

The company has inbuilt price escalation clauses in majority of contracts in order to insulate the company from any adverse fluctuation in raw material prices and labor expenses. This enables the company to pass on increase in construction cost to its customers. Ability of the company to pass on increased price burden to the customers in a timely manner and maintain profitability margins is critical from the credit perspective.

### About the Company

Swaminarayan Nirman Sewa Private Limited incorporated in September 02, 2013, having registered office in Dharan-10, Sunsari, is a small-scale construction company in Nepal. The company is owned and promoted by Mr. Santosh Kumar Basnet and his family holding 100% of total shares. The company has been involved in construction projects such as building, road, water supply, irrigation etc. across Nepal. SNSPL also enters into JV with other companies in order to meet the eligibility criteria for the projects.

### Analytical approach:

CRNL has analyzed SNSPL's credit profile by considering the consolidated financial statements (comprising SNSPL and its JV entities related to the construction works) owing to financial and operational linkages between SNSPL and JV entities. Brief financials of SNSPL for last three years ending FY18 are given below:

Brief Consolidated Financials (Rs. Million)	FY16	FY17	FY18
	(Audited)	(Audited)	(Audited)
Income from Operations	67	82	177
PBILDT	3	5	13
PAT	2	3	6
Overall Gearing	0.62	0.54	0.80
Interest Coverage (times)	19.36	3.28	6.60

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### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Hire Purchase Loan	14.73	CARE-NP BB
Long Term Bank Facilities (Proposed)	Hire Purchase Loan	42.00	CARE-NP BB
Short Term Bank Facilities	Overdraft Loan	10.00	CARE-NP A4
Short Term Bank Facilities	Bank Guarantee	288.50	CARE-NP A4
Short Term Bank Facilities (Proposed)	Bank Guarantee	750.00	CARE-NP A4
<b>Total</b>		<b>1,105.23</b>	