

Rating Rationale
Samanantar Nirman Sewa Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	67.19	CARE-NP BBB [Triple B]	Assigned
Short Term Bank Facilities	5,768.50	CARE-NP A3+ [A Three Plus]	Assigned
Total Facilities	5,835.69		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB’ to the long term bank facilities and ‘CARE-NP A3+’ to the short term bank facilities of Samanantar Nirman Sewa Private Limited (SNSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNSPL derives strength from experienced promoters in related field, established track record in executing various construction works, healthy order book position with mid-term revenue visibility and diversified projects, and strong operational and financial profile characterized by healthy profitability and growth in sales in FY19 (refers to 12 months’ period ended mid-July 2019). The ratings also factor in comfortable capital structure and debt service coverage indicators of the company, healthy liquidity profile, presence of backward integration for construction materials, moderate counter party risk and escalation clause in majority of the contracts. The ratings are however constrained by tender based nature of operations in highly competitive construction industry, working capital intensive nature of business, exposure to volatile interest rates and impact of Covid-19 on the business operation of the company. Ability of the company to successfully execute projects in time, timely recovery of contract proceeds, manage revenue growth and maintain profitability margins are the key rating sensitivities.

Impact of Covid-19 on the business of the company

The outbreak of Coronavirus disease 2019 (Covid-19) which was recognized as Pandemic by World Health Organization on March 11, 2020 has affected Nepal as well. Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down of the economic activities. The construction activities of the company were also subdued on account of the lockdown. Also, since construction activities in Nepal usually takes momentum on second half of the financial year, with country’s economy and construction sector significantly impacted since March 2020, it may have a negative impact on the revenue, profitability and debt service indicators of the company. Considering the impact of Covid-19 in the economy of Nepal, GoN has introduced various packages to ease out the impact across different sectors including construction sector. Further, the Central Bank of Nepal has provided an extension for the repayment of debt obligations and rebate in interest rate by 2% for the fourth quarter ending

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

mid-July 2020. The company's ability to achieve its projected revenue, maintain profitability margins and liquidity position will be key rating consideration.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters in the related fields

SNSPL is managed under the overall guidance of the company's three board of directors (BOD) who possess experience in related field. SNSPL has 3 directors in its board. Mr. Achyut Prasad Kharel, Chairman, has experience of over 25 years in the field of construction business and is specialized in marketing with experience in advisory/consultancy services. Mr. Niroj Kumar Thapaliya, Managing Director, has more than 25 years of work experience in the construction field and mainly handles company finance and administration activities including human resource functions. Mr. Keshab Prasad Kharel, Director, is associated with the company for more than two decades and has technical knowledge and experience with regard to construction contracts. BODs are further supported by an experienced team across various functions/ departments.

Established track record in executing various construction works

SNSPL has an established track record of more than 25 years in the construction of roads, buildings, irrigation and water projects etc. ranging from small sized to large sized projects (majority of which are building projects) across the country in different terrains either individually or through its Joint Venture (JV) entities. Further, the company has a track record of completing the projects in a time bound manner and received several awards for completing the construction projects before the deadline.

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

Till mid- February 2020, the unexecuted orders in hand of the company stood at Rs. 4,911 Mn. Due to government initiative towards the infrastructure projects, the order book of the company is expected to increase in future. The order book of the company reflects medium term revenue visibility. The order book is mainly concentrated on building works (accounting for ~61% of total work order) along with other various projects such as road works, irrigation and water works, beautification works etc. received from various government authorities as well as private entities. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for SNSPL.

Strong operational and financial profile characterized by healthy profitability and growth in sales in FY19

Financial risk profile of the company is comfortable marked by increase in scale of operations, profitability and gross cash accruals (GCA) over the period. Total revenue of the company on Standalone Basis increased by 70% to Rs. 1,710 Mn in FY19 on account of increase in scale of business operations mainly in segment of sub-

contract works, equipment rental revenue and construction contract activities. Further, the company has moderate PBILDT margin which decreased from ~12% in FY18 to ~11% in FY19.

Revenue of the company on Consolidated Basis increased by 61% to Rs. 2,992 Mn in FY19 on account of increase in executions of contracts in hand. PAT margin of the company improved from 2.73% in FY18 to 3.90% in FY19. GCA of the company increased from Rs. 106 Mn in FY18 to Rs. 175 Mn in FY19 (increment of ~65%) mainly due to increase in PAT of the company.

Comfortable capital structure and debt service indicators of the company

The capital structure of the company is comfortable with below unity debt equity and overall gearing ratio at the end of FY19 on Consolidated Basis. The gearing ratio improved at the end of FY19 on account of decline in long term loans and short terms loans with lower reliance on working capital loans. Gearing ratio is expected to further improve in FY20 mainly on account of significant prepayment of term loans during the year. Total debt/GCA was low at 1.19x in FY19 which improved from 2.54x in FY18 due to increment in GCA coupled with decrease in the loans.

Healthy liquidity profile of the company

The company has comfortable liquidity position on account of surplus funds available in the form of advance mobilization money and significant amount of Fixed Deposit balance. Further, the company has significant amount of Fixed Deposit balance of Rs. 300 Mn which provides financial flexibility to the company. The average working capital utilization of the company was at ~7% for last twelve months ending mid- February, 2020. Also given the inherent cyclicity in the construction industry, lower reliance on external financing remains a positive, especially given the rising interest rates for bank borrowings in the past and impact over business operations due to Covid-19 pandemic.

Presence of backward integration for construction materials

Major raw materials used by the company for its construction activities are asphalt, concrete, bitumen, steel rod, cement, construction aggregate etc. SNSPL has several associate entities that are involved in production of construction materials such as ready mix concrete (RMC), stone and sand aggregate, sub-base and base course etc. as well as transportation activities to ensure continuous material flow from off-site chains to the construction site. These construction materials are required by the company on a day to day basis and accounts for around 40% of total raw material consumption cost. Thus, with associate entities involved in production of construction materials benefits the company in terms of synergy derived from economies of scale, better inventory management, timely transportation, supply chain integration etc. Further, the company has its own Asphalt Plant which helps to generate income from sub-contract activities.

Moderate counter party risk

Revenue of SNSPL is generated via contracts from government departments and private entities related to building works, road works, irrigation and water works etc. with majority of the contracts coming from government departments. Average collection period of the company on consolidated basis was at 127 days in FY19 (vis-à-vis 98 days in FY18) which includes amount receivable from JVs and other parties. The debtor days increased in FY19 mainly due to huge billing usually done by construction companies in Nepal including SNSPL to government departments at the year-end for completed works. However, the counter party risk is moderated by the fact that majority of the construction contracts are obtained from government departments and it has been making timely payment to the company in past. Also, any amount due from the private contractors/ parties are secured against bank guarantees.

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 construction material prices and labor expenses. This enables the company to pass on increase in raw material prices 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 credit perspective.

Key Rating Weaknesses***Tender based nature of operations in highly competitive construction industry***

The company receives its work orders from government departments and private entities constituting with majority of the order coming from government contracts. All government contracts 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 a low price to sustain competition. With regard to private contracts, the contract is generally awarded on negotiation basis with the client. Also, the promoter's reasonable industry experience in related field and presence of backward integration with regard to raw materials mitigates risk of competition to some extent. Since, 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

The operations of the company are generally working capital intensive in nature. The company primarily works with government departments and payments for contracts are received in a timely manner. Also, SNSPL maintained low level of construction materials as an inventory which was around 12 days on consolidated basis since most of the raw materials required by the company was produced by associate entities thus ensuring timely

delivery and limited holding of inventory. There is very low reliance of the company in working capital loans to manage its operations. Accordingly, the average working capital utilization of the company was low at ~7% for last twelve months ending mid- February, 2020.

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.

About the Company

Samanantar Nirman Sewa Private Limited, incorporated on September 06, 2009 is a mid-scale construction company based in Kathmandu, Nepal. SNSPL has been involved in construction of both small and large scale projects such as buildings works (mainly), river training works, water supply works, road works etc. across Nepal. In addition to the projects execution on standalone basis, SNSPL also enters into JVs with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of SNSPL for last three years ending FY19 on Consolidated Basis are given below:

For the year ended Mid July	(Rs. Million)		
	FY17 (Audited)	FY18 (Audited)	FY19 (Audited)
Income from Operations	748	1,861	2,992
PBILDT	61	124	216
PAT	21	51	117
Overall Gearing (times)	2.24	2.07	0.92
TOL/ TNW (times)	7.03	8.40	8.49

Analyst Contact Mr. Sakar Khadka sakar.khadka@careratingsnepal.com Tel No.: +977-01-4445473	Group Head Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4445474	Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4445472/3/4
--	--	---

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.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	67.19	CARE-NP BBB
Short Term Bank Facilities	Working Capital Loan	60.00	CARE-NP A3+
Short Term Bank Facilities	Non-Funded Loan	5,708.50	CARE-NP A3+
Total		5,835.69	