

Rating Rationale

Abisa Nirman Sewa & Suppliers Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term/Short Term Bank Facilities	510.00	CARE-NP BB/ A4 [Double B/ A Four]	Assigned
Total Facilities	510.00		

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 Abisa Nirman Sewa & Suppliers Private Limited (ANSS).

Analytical approach:

CRNL has analyzed ANSS’s credit profile by considering the standalone financial statements.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANSS are constrained by nascent track record in executing construction projects, however with growing order book position. The rating is further constrained by small scale of operation with highly concentrated order book position, tender based nature of operations in highly competitive construction industry and working capital intensive nature of business. The ratings, however, derive strength from experienced promoter in construction fields, financial profile characterized by growth in the revenue and PBILDT albeit low profitability margins and decline in PAT during FY20 (Unaudited, refers to 12 months’ period ended mid-July 2020). The ratings also factor in moderate order book position with mid-term revenue visibility, debt free company with low Total Outside Liabilities/ Tangible Net-worth (TOL/TNW) ratio, 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 to manage healthy revenue growth and maintain profitability margins without deterioration in its financial risk profile will be key rating sensitivities.

Impact of Covid-19 on the business of the company

The global outbreak of Coronavirus disease 2019 (Covid-19) has affected Nepal as well. Government of Nepal (GoN) imposed 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. Company has deferred some of the projects in FY21 due to operation being hampered in the lockdown period, however, with the support of local government and mobilization of local manpower company managed growth in revenue during FY20 by executing some of

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

the works in hand. The company's ability to achieve its projected revenue for FY21 and maintain profitability margins will be key rating consideration.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Nascent track record in executing road, building and flood management works however growing order book position.

ANSS has a nascent track record of over 2.5 years in the construction of building works (majorly), road works and flood management works either individually or through sub-contract or through its JV entities. Due to the relatively short track record of the company in construction field, its ability to successfully bid for construction contracts, improve its order book position and revenue profile over the period remains key rating consideration.

Small scale of operations with highly concentrated order book position

The operations of the company are relatively smaller in scale coupled with highly concentrated order book position. Out of total order book of the company, around 38% is concentrated towards one single building project of Government. This exposes company to order book concentration risk as failure or delay in successful execution of these projects is likely to impact operations and cashflows of the company.

Tender based nature of operations in highly competitive construction industry

The company receives its work orders from subcontract and government departments constituting 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 subcontract, the contract is generally awarded on negotiation basis with the client. Also, the promoter's reasonable industry experience in related field mitigates risk of competition to some extent. 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 working capital intensive in nature as company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bill is done. Average collection period of the company was at 56 days at the end of FY20 (vis-à-vis 68 days at the end of FY19) which primarily includes amount due for work done by the company on behalf of the JVs. ANSS maintained construction materials as an inventory which was around 21 days at the end of FY20. These factors lead to reliance of the company on the suppliers to meet its working capital requirements.

Key Rating Strengths***Experienced promoters in the related fields and moderate track record of operations***

ANSS is being promoted by Mr. Arjun Dahal, Managing Director, has been leading the company since its inception from February 2018 and has experience of more than a decade in the field of construction contract business. He is responsible for overall planning, management and execution of projects undertaken by the company. Further, the board is supported by an experienced team across various functions.

Financial risk profile marked by growth in the revenue and PBILDT albeit low profitability margins and decline in PAT in FY20

Total revenue increased to Rs. 215 Mn in FY20 (increment of ~11%) on account of execution of work in hand. However, the company has low PBILDT margin of 6.65% in FY20 mainly due to undertaking of lower margin construction contracts to improve revenue profile of the company. The PAT margin of the company was also low at 2.18% in FY20.

Moderate order book position with mid-term revenue visibility

As on November 22, 2020, the unexecuted orders in hand of the company stood at Rs. 866 Mn. The present order book to FY20 revenue is around 4.02x which provides mid-term revenue visibility. The order book of the company is mainly concentrated in building works from government departments on subcontract basis (i.e. ~38%) coupled with road works and river training works received from various government authorities. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for ANSS.

Debt free company with low TOL/TNW

The capital structure of the company is marked with zero debt since its inception from February 2019. The company has not availed any fund based debt till date and has only availed non-fund based limits from Banks for guarantee purpose. Also, TOL/TNW of the company improved from 2.70x at the end of FY19 to 0.56x at the end of FY20 due to improvement of TNW. During FY20, the directors of the company infused equity of Rs. 48 Mn. for addition in fixed assets.

Moderate counter party risk

Revenue of ANSS is generated via construction contracts from government departments and subcontract. In absolute amount, debtor outstanding at the end of FY20 increase to Rs. 41 Mn from Rs. 25 Mn. at the end of FY19 which primarily includes amount due for work done by the company on behalf of the JVs. 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.

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.

About the Company

Abisa Nirman Sewa & Suppliers Private Limited (ANSS), is a Class “D” construction company in Nepal incorporated on February 26, 2018 with registered office based in Kathmandu, Bagmati, Nepal. The company is mainly involved in constructing various type of projects which includes building construction, road construction, river training works and flood management works. In addition to doing projects independently, ANSS also enters into Joint Ventures (JV) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of ANSS (Standalone) for last three years ending FY20 are given below:

For the year ended Mid July	(Rs. Million)		
	FY18 (4.5M) (Audited)	FY19 (12M) (Audited)	FY20 (12M) (Provisional)
Income from Operations	108	194	215
PBILDT	2	10	14
PAT	2	8	5
Overall Gearing (times)	0.00	0.00	0.00
Interest Coverage (times)	0.00	0.00	0.00
TOL/ TNW (times)	14.40	2.70	0.56

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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/ Short Term Bank Facilities	Non-Fund based limits	510.00	CARE-NP BB/ A4
Total		510.00	