

Rating Rationale
Gwallek Nirman Sewa Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	165.61	CARE-NP BB+ [Double B Plus]	Assigned
Long Term Bank Facilities (Proposed)	29.39	CARE-NP BB+ [Double B Plus]	Assigned
Short Term Bank Facilities	85.00	CARE-NP A4+ [A Four Plus]	Assigned
Long Term/Short Term Bank Facilities	720.00	CARE-NP BB+/ A4+ [Double B Plus/ A Four Plus]	Assigned
Total Facilities	1,000.00		

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 Gwallek Nirman Sewa Private Limited (GNS).

Analytical approach:

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GNS are constrained by decline in revenue, however with growth in profitability and cash accruals during FY20 (Unaudited, refers to 12 months’ period ended mid-July 2020) and nascent track record in executing various construction works with moderate order book position. The rating is also constrained by small scale of operation with geographically concentrated order book position, tender based nature of operations in highly competitive construction industry, working capital intensive nature of business and exposure to volatile interest rates. The ratings, however, derive strength from experienced promoter in construction field, moderate capital structure and comfortable debt service coverage indicators of the company at the end of FY20, 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 operations of the company were moderately disturbed during the lockdown period which has impacted the revenue of the company by

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

extending some of the execution of the projects in FY21 resulting in loss of revenue. Considering the impact of Covid-19 in the economy of Nepal, 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 mid-July 2020. 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

Financial risk profile marked by decline in revenue, however growth in the profitability and cash accruals in FY20

Execution of order book in hand was impacted due to Covid-19 resulting into deferment of revenue to next year, however the company managed to book revenue of Rs. 446 Mn during FY20 with ~8% decline as compared to FY19. The company was able to improve PBILDT margin during FY20 due to decline in direct cost and decline in administrative & other expenses. Gross Cash Accruals of the company increased mainly on account of increase in profitability and depreciation.

Nascent track record in executing various construction works however growing order book position

GNS has a nascent track record of over 6.5 years in construction of roads and buildings works ranging from small sized to mid-sized projects in far-western part of the country through subcontract or by entering into JVs. 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 years remains key rating consideration.

Small scale of operations with geographically concentrated order book position, however growth in operating income

The company commenced its operations from March 2014 and the operating income stood moderate with growth at the CAGR of 33% from FY16 to FY20. The entire operations of the company and its order book are concentrated mainly in road projects of far-western regions which accounts for 59% of the total order book.

Tender based nature of operations in highly competitive construction industry

The company receives its entire work orders from government departments and other construction companies on sub-contract basis. However, majority of the work order comes from government contracts. All these 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 generally working capital intensive in nature as the company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bills. Average debtor days stood at 57 days at the end of FY20 which increased from 48 days at the end of FY19 majorly due to billing raised at year end mainly to the government clients. Average inventory holding period of the company was around 21 days at the end of FY20. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

Key Rating Strengths

Experienced promoters in the related fields and moderate track record of operations

GNS is being promoted by Mr. Suresh Chand, Managing Director, has been leading the company since its inception from March 2014. He manages overall projects executed by the company since 2014. Further, the board is supported by an experienced team across various functions.

Moderate capital structure and comfortable debt service coverage indicators of the company

The capital structure of the company is marked with debt equity ratio of 1.98x and overall gearing ratio of 2.09x at the end of FY20. The gearing ratio improved at the end of FY20 mainly on account of increase in net worth on back of accretion of profit to networth. Interest coverage ratio of the company was comfortable at 4.83x in FY20. Also, Total Outside Liabilities/ Tangible Net-worth (TOL/TNW) and Total debt/ Gross Cash Accruals of the company was comfortable at 2.98x and 2.54x respectively during FY20.

Moderate order book position with mid-term revenue visibility

As on November 8, 2020, the unexecuted orders in hand of the company stood at Rs. 1,337 Mn. Also, the present order book to FY20 revenue is around 2.99x which provides moderate revenue visibility. The order book is primarily concentrated towards road works (~74%) and rest of the works include bridge works, building works and irrigation works. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for GNS.

Moderate counter party risk

Revenue of GNS is generated via construction contracts entirely from government departments. Average collection period of the company was at 57 days at the end of FY20 (vis-à-vis 48 days at the end of FY19) which primarily includes amount receivable for work done from the government parties. Despite delays the counter party risk is moderated by the fact that contracts are obtained from government departments and it has been making payments 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

Gwallek Nirman Sewa Private Limited (GNS), incorporated on March 25, 2014, is a Class-A construction company of Nepal with registered office based in Baitadi, Nepal. The company is mainly involved in construction of various projects related to road works, building works, bridge works, irrigation works etc. mainly in far-western part of Nepal. In addition to doing projects independently, GNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

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

For the year ended Mid July	(Rs. Million)		
	FY18 (Audited)	FY19 (Audited)	FY20 (Provisional)
Income from Operations	475	486	446
PBILDT	49	69	101
PAT	21	14	28
Overall Gearing (times)	2.25	2.33	2.09
TOL/ TNW (times)	6.27	4.10	2.98
Interest Coverage (times)	6.08	3.82	4.83

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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	Term Loans	165.61	CARE-NP BB+
Long Term Bank Facilities (Proposed)	Term Loans	29.39	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loans	85.00	CARE-NP A4+
Long Term/ Short Term Bank Facilities	Non-Funded Loans	720.00	CARE-NP BB+/ A4+
Total		1,000.00	