

## Rating Rationale

### Bhimeshwor Drilling Tatha Nirman Sewa Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	95.83	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	177.31	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	1,226.86	CARE-NP BB/ A4 [Double B / A Four]	Assigned
<b>Total Facilities</b>	<b>1,500.00</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 Bhimeshwor Drilling Tatha Nirman Sewa Private Limited (BDNS).

#### **Analytical approach:**

CRNL has analyzed BDNS’s credit profile by considering the consolidated financial statements.

#### **Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of BDNS are constrained by leveraged capital structure coupled with incremental debt projected due to planned debt funded capital expenditure and working capital intensive nature of business. The ratings are also constrained by the company’s presence in highly competitive construction industry coupled with tender based nature of operations, risk of delay in project execution and exposure to volatile interest rates.

The ratings, however, derive strength from experienced promoters, growing scale of operations and moderate profitability margins. The ratings also factor in moderate order book position and moderate counter party risk with escalation clause in majority of the contracts.

*Going forward, the ability of the company to profitably scale up its operations while maintaining its orderbook and manage its working capital effectively considering high funding requirement to support growth will be crucial and act as the key rating sensitivities.*

#### **Detailed Description of the Key Rating Drivers**

##### **Key Rating Weaknesses**

##### ***Leveraged capital structure and debt levels expected to increase***

As on mid July 2020, total debt of the company comprises of long-term borrowings of Rs. 136 Mn, working capital loans of Rs. 105 Mn and unsecured loans from promoters amounting to Rs. 41 Mn. The capital structure of the company stood leveraged on account of high dependence on external borrowings to meet its working capital and capital funding requirements. The debt equity ratio and overall gearing ratio (including mobilization advance) stood high at 2.93x and of 3.61x respectively at the end of FY20. The

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

overall gearing ratio has deteriorated in FY20 over previous year with increase in total debt of the company to fund capital expenditures as well as increased operations of the company.

The company has been making regular investments to expand its infrastructure facilities in the past and is expected to continue in future. It is expected that the company will take additional loan for purchase of equipment/machineries for smoothening of business operations towards execution of orders in near future.

***Working capital intensive nature of business***

The operations of the company are generally working capital intensive in nature. The company works with government departments and payments for contracts are received in a timely manner with an average collection period of 80 days in FY20. 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. The company has high inventory holding as it has to execute orders at different sites and has to maintain minimum inventory for smooth execution of contracts. Also, BDNS purchases raw materials from domestic market and average payable period stood at 58 days in FY20. These factors lead to reliance of the company on bank finance to meet its working capital requirements reflected by an average working capital utilization of around 70% against drawing power for 12 months ending mid-March, 2021.

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

The company mainly caters to orders received from various Government entities and other private parties either directly or on sub-contract basis. The concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. The tender-based business is characterized by intense competition and the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, the business also remains dependent on stability in government policies and fiscal position of the government.

***Risk of delay in project execution***

BDNS's business is susceptible to the financial loss arising out of delay in project execution, as generally, there is a penalty clause for delay in contract execution. However, BDNS has relied on the experience of its management team with strong project execution skills which has enabled the company to build satisfactory standing in the industry as indicated by the repeat orders awarded by its clients.

**Key Rating Strengths**

***Experienced promoters in the related fields***

The company is currently managed by Mr. Sahadev Khadka and Mr. Krishna Bahadur Khadka. Mr. Sahadev Khadka has around 15 years of experience in the construction contract business and looks after overall operations of the company. The management is further supported by an experienced team across various functions/ departments. The promoters have also been infusing funds into the company in the form of equity and directors' loan to fund the operational needs of the company.

***Growing scale of operations and moderate profitability***

Total revenue of the company increased in FY20 to Rs. 975 Mn over Rs. 308 Mn in FY19 on back of increase in contracts in hand and execution of the same. Furthermore, the company has achieved total operating income of Rs. 677 Mn in 9MFY21 ended mid-April, 2021. Profitability margins of the company are directly associated with technical aspect of the contract executed. The contracts which are generally technical and complex in nature fetched better profitability margins. With significant increase in the scale of operations led to proportionate decline in various fixed & variable overhead costs in FY20, PBIDLT margin as well as PAT margin of the company has improved in FY20. Though profitability margins improved on y-o-y basis, it continued to be range bound.

***Moderate order book position with mid-term revenue visibility***

The unexecuted order book of the company as on March 22, 2021 stood at Rs. 1,969 Mn which is approximately 2.02x of its total operating income for FY20 providing short to moderate revenue visibility for the next 1 to 1.5 years. The order book of the company is equally concentrated in water supply and sanitation works and road works coupled with other civil construction projects.

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

The company has inbuilt price escalation clauses in majority of contracts (both government and private 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**

Bhimeshwor Drilling Tatha Nirman Sewa Private Limited is a Class-A construction company of Nepal, incorporated on April 10, 2018. The company has succeeded an erstwhile proprietorship firm M/s Bhimeshwor Drilling Udhog under the same management which was established in March 03, 2011. The company is engaged in construction and infrastructure sector projects independently as well as through Joint Ventures (JVs).

Brief financials of BDNS (Consolidated) for last two years ending FY20 are given below:

For the year ended Mid July	(Rs. Million)	
	FY19 (Audited)	FY20 (Audited)
Income from Operations	308	975
PBILDT Margin (%)	8.77	9.08
Overall Gearing (times)	3.09	3.61
Total Outstanding Liabilities/Tangible Net worth (times)	4.52	5.14
Interest Coverage (times)	3.63	3.61
Current Ratio (times)	1.73	2.11
Total Debt/ Gross Cash Accruals (times)	13.40	10.01

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**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 Loans	95.83	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	177.31	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	1,226.86	CARE-NP BB/ A4
<b>Total</b>		<b>1,500.00</b>	