

Rating Rationale

Singha & Brothers Construction Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	149.29	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	158.00	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	692.71	CARE-NP BB/ A4 [Double B / A Four]	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 Singha & Brothers Construction Private Limited (SBCP).

Analytical approach:

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SBCP are constrained by small and fluctuating scale of operations with geographically concentrated order book position, working capital intensive nature of business and its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings are also constrained by exposure to volatile interest rates and risk of delay in project execution.

The ratings, however, derive strength from experienced promoters in construction fields, moderate order book position, moderate capital structure and debt service coverage indicators, moderate counter party risk and escalation clause in majority of the contracts.

Going forward, the ability of the company to profitably scale up its operations while successfully execute projects on time and recover contract proceeds will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Small and fluctuating scale of operations

Despite being operational for nearly more than 15 years, the scale of operations has remained small marked by a total operating income (TOI) and gross cash accruals of Rs. 361 Mn. and Rs. 48 Mn. respectively during FY20 (Audited, refers to 12 months’ period ended mid-July 2020). The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low total operating income.

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

Company's total operating income has been fluctuating over the past years (FY17-FY20). TOI has registered a decline on y-o-y basis in FY18 and registers a growth in FY19. The company's business is tender driven and lowest bidder gets the order. Since SBCP did not get any new tender in FY18, there was a decline in the revenue booking during FY18.

Geographically concentrated though moderate order book position

The unexecuted order book of the company as on March 08, 2021 stood at Rs. 1,000 Mn which is approximately 2.38 times of its total operating income for FY20, thereby giving short to medium term revenue visibility. The tenure of the orders undertaken by the company is up to 24 months. However, the order book is concentrated towards few large orders; hence, effective and timely execution of the orders has a direct bearing on the margins attained. Furthermore, given majority of projects are geographical concentrated, the company is also exposed to geographical concentration risk like regional disturbances, natural disasters etc.

Working capital intensive nature of business

The company has working capital intensive nature of operations primarily on account of high inventory holding. The company has high inventory holding as it has to execute orders at different sites and billing for the same is done on the basis of work completion & the same is required to be approved by the respective employer. This leads to classify completed work as work-in-progress.

The company works with government departments either directly or through subcontract basis. Payments for government contracts are received in a timely manner after presenting the bill. Payment is generally received within 45 days from the date of billing. Average collection period of the company stood moderate at 59 days at the end of FY20 (vis-à-vis 27 days at the end of FY19). These factors lead to reliance of the company on bank finance to meet its working capital requirements which resulted high utilization against the sanctioned working capital borrowings.

Tender based nature of operations in highly competitive construction industry

The company mainly caters to orders received from various Government entities and other Government establishments either directly or on sub-contract basis. The high 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

SBCP'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, SBCP 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 and established track record of operations

SBCP was promoted by Mr. Kamal Upreti and Ms. Sangita Baniya and has established track record of operations of nearly 2 decades in construction of road, bridge, water management and building works. Mr. Kamal Upreti has more than two decades of experience in this line of activity and looks after the overall operations of the company. By virtue of long experience of the promoters; the company has been able to attract experienced professionals from the industry, who adequately support the directors.

Moderate profitability and capital structure

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. In the past 2 financial years (FY19 and FY20), the PBIDLT margin of the company remained range bound at around 19% and PAT margin remained stable at just above 5% in the said financial years.

The capital structure of the company stood moderate marked by debt equity ratio and overall gearing ratio (including mobilization advance) of 0.88x and 1.00x respectively at the end of FY20. Overall gearing ratio deteriorated in FY20 compared to FY19 mainly on account of increase in long term loans for the procurement of fixed assets. Also, the interest coverage ratio stood comfortable and at above five times in the last two financial years.

Moderate counter party risk

Revenue of SBCP is generated via contracts only from government departments through tender and subcontract basis. In construction business, as work done by the company needs to be verified by the consultants/ engineers beforehand in order to raise the bill to the concerned client, collection period generally remains around 1-2 months. 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 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

Kathmandu, Nepal based Singha & Brothers Construction Private Limited (SBCP) was incorporated on April 21, 2003. The company is engaged in construction and infrastructure sector undertaking projects of roads and civil construction on engineering, procurement and construction (EPC) basis. SBCP also enters into Joint Ventures (JVs) with other companies for different construction projects.

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

For the year ended Mid July	(Rs. Million)		
	FY18 (Audited)	FY19 (Audited)	FY20 (Audited)
Income from Operations	43	299	361
PBILDT Margin (%)	50.13	19.82	18.79
Overall Gearing (times)	1.40	0.90	1.00
Total Outstanding Liabilities/Tangible Net worth (times)	5.62	1.19	1.58
Interest Coverage (times)	3.23	9.47	5.09
Current Ratio (times)	1.08	5.06	2.22
Total Debt/ Gross Cash Accruals (times)	3.26	4.81	4.15

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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	149.29	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	158.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	584.20	CARE-NP BB/ A4
Long Term/ Short Term Bank Facilities (Proposed)	Non-Funded Loans	108.51	CARE-NP BB/ A4
Total		1,000.00	