

Bandan Bhagwati Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	381.37	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	60.00	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	2,558.63	CARE-NP BB/ A4 [Double B/ A Four]	Assigned
Total Facilities	3,000.00 (Rs. Three Billion)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Bandan Bhagwati Nirman Sewa Private Limited (BBNS).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BBNS are constrained by below average financial risk profile marked by decline in revenue and profitability, leveraged capital structure and modest debt service coverage indicators 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 and established track record of operations, moderate order book position, moderate operating cycle and counter party risk along with escalation clause in majority of the contracts.

Going forward, the ability of the company to profitably scale up its operations amidst high level of competition and manage its working capital requirements to support growth will be crucial and act as the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial profile

Total Operating Income (TOI) of BBNS declined significantly by ~31% to Rs. 668 Mn in FY20 (Audited, FY refers to 12 months period ended mid-July) over FY19 mainly on account of lower execution of the contracts due to impact of lockdown imposed by the government. In 10MFY21 (refers to 10 months period from mid-July 20 to mid-May 21), the company has achieved TOI of Around Rs.520 Mn.

Profitability margins of the company have been improving on y-o-y basis in last 3 financial years (FY18-FY20) on account of execution better margins contracts. The operating margins are directly associated with technical aspect of the contract executed. In FY20, the PBIDLT margin of the company stood at 16%; however, high dependency on external funding and depreciation expenses have been restricting PAT margin which stood at 3.43% in FY20.

Overall gearing ratio (including mobilization advance) of the company stood at 3.03x at the end of FY20. The company has leveraged capital structure on account of high dependence on term loan taken for purchase of construction

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

equipment's for execution of contracts and mobilization advances. Interest coverage ratio stood moderate at around 4.13 times with total debt to GCA of 4.26x in FY20.

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

BBNS'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, BBNS 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

BBNS was promoted by Mr. Ramji Panta (Mukesh), Mr. Anil Man Shrestha, Mr. Ramesh Kumar Bajimayo and Ms. Jasoda Devi Dhakal and has established track record of operations of over 13 years in construction of road, bridge, irrigation and building works. Mr. Ramji Panta, Managing Director, has been associated with the company since its inception and manages overall affairs of the company especially projects execution. 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 order book position with mid-term revenue visibility and diversified projects

The unexecuted order book of the company as on mid-June 2021 stood at Rs. 1,865 Mn which is approximately 2.84 times of its TOI for FY20, thereby giving mid-term revenue visibility. The tenure of the orders undertaken by the company is up to 36 months. The order book is diversified over various projects such as building works, irrigation and water works, bridge works and road works received from various government authorities.

Moderate operating cycle and counter party risk

Revenue of BBNS is generated through execution of contracts offered from government departments either directly or on subcontract basis. Average collection period of the company stood at 50 days in FY20 (vis-à-vis 52 days in FY19). The company has to carry out activities at different sites and for smooth execution maintain minimum inventory at each location. BBNS had inventory days of around 20 days in FY20. The normally avails credit for its procurement and average payable days stood at 46 days in FY20. This has resulted to have moderate operating cycle which stood at 24 days in FY20. Also; the counter party risk is moderated by the fact that contracts are obtained from government departments.

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 labour expenses. This enables the company to pass on increase

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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.

Analytical approach:

CRNL has analyzed BBNS's credit profile by considering the consolidated financial statements.

About the Company

Bandan Bhagwati Nirman Sewa Private Limited (BBNS), incorporated on May 27, 2008, is a Class-A construction company of Nepal with registered office based in Kathmandu, Nepal. In addition to doing projects independently, BBNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance – Consolidated

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Income from Operations	686	961	668
PBILDT Margin (%)	11.92	12.58	16.00
Overall Gearing (times)	3.61	2.91	3.03
Total Outstanding Liabilities/Tangible Net worth (times)	6.97	5.33	4.65
Interest Coverage (times)	5.53	4.32	4.13
Current Ratio (times)	1.39	1.29	1.71
Total Debt/ Gross Cash Accruals (times)	5.27	3.46	4.26

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	381.37	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	60.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	2,558.63	CARE-NP BB/ A4
Total		3,000.00	

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About CARE Ratings Nepal Limited:

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