

## C.A.B. Construction Private Limited

### Ratings

Facilities/Instruments	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	464.53	<b>CARE-NP BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING*)</b>	“Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Short Term Bank Facilities	4,144.00	<b>CARE-NP A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*)</b>	“Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
<b>Total</b>	<b>4,608.53</b> <b>(Four Billion Six Hundred Eight Million and Five Hundred Thirty Thousand)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CRNL has been seeking information from C.A.B. Construction Private Limited (CAB) to monitor the rating(s) vide e-mail communications/letters dated May 11, 2021 and June 23, 2021 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL’s opinion is not sufficient to arrive at a fair rating. CRNL will monitor/watch the rating once for a minimum period of 6 months and notify the Securities Board of Nepal (SEBON) and public with regards to the withdrawal of rating. If after the monitoring of the rating there is no cooperation from the Client, then after, CRNL may withdraw the rating.

The rating of C.A.B. Construction Private Limited bank facilities will now be denoted as **CARE-NP BB+/CARE-NP A4+; ISSUER NOT COOPERATING\* (Notice of Withdrawal)**.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

### Detailed description of the key rating drivers

*At the time of last rating on July 15, 2020 the following were the rating strengths and weaknesses:*

#### Key Rating Weaknesses

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

The company receives its work orders from government departments and private entities 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. Also, the promoter’s reasonable industry experience in related field mitigates risk of competition to some extent. Since, there are numerous fragmented and unorganized players operating in this industry which makes the civil construction space highly competitive and the ability of CAB to sustain its profitability margins and growth in future remain crucial. Further, the business also remains dependent on stability in government policies and fiscal position of the government.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications  
\*Issuer did not cooperate; Based on best available information

***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 after the work certification process is completed and finalization of the bill. CAB maintained construction materials as an inventory which was around 1 month. The credit period extended by suppliers of raw materials (purchased locally) is usually 45-60 days. Further, the cash flows of the company are blocked in retention money which is deducted by the client from running bills and gets refunded only on successful execution of the contracted work. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

***Planned debt funded capital expenditure***

The company has been making regular investments to expand its infrastructure facilities in the past and is expected to continue in future. The purchase of fixed assets by the company was majorly funded through bank loans. Further, it is expected that the company will take additional loans for purchase of equipment/machineries for the new projects.

***Exposure to volatile interest rates***

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

**Key Rating Strengths*****Long track record of operations and experienced promoters in the related fields***

The company has long track record of operations of around 40 years in the construction of various infrastructure projects all over Nepal. CAB is promoted by Mr. Ganesh Chand and his family members. Mr. Ganesh Chand, Managing Director, has extensive experience of around 40 years in the field of construction business and is responsible for day to day operations, overall management of the projects executed and business development of the company. Board of directors are further supported by an experienced team across various functions/ departments.

***Established track record in executing diversified construction works***

CAB has an established track record in the construction of road works, bridge works, building works, irrigation and river training works, water supply and sanitation works, transmission line works etc. ranging from small sized to large sized projects across the country in different terrains either individually or through its Joint Venture (JV) entities. The long track record has enabled the company to establish relations with its customers thereby resulting into repeat tenders from the government departments.

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

Till June, 2020, the unexecuted orders in hand of the company stood at Rs. 4,486 Mn. Also, the present order book to FY19 revenue is around 2.99x providing medium term revenue visibility. The order book of the company is mainly concentrated in road works (i.e. ~72%) coupled with other various projects such as water supply & sanitation project, building works, bridge works, irrigation works etc. received from various government authorities (majorly) as well and private entities. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for CAB.

**Healthy operational and financial profile characterized by healthy growth in sales, increase in PAT margins & internal cash accruals in FY19**

Total revenue increased to Rs. 1,500 Mn in FY19 reporting growth of ~23% over FY18 on back of increase in execution of the contracts in hand. The company has moderate PBILDT margin of 11.85% in FY19 (vis-à-vis 11.10% in FY18) which are generally in line with the construction industry. Also, PAT margin of the company was on a moderate level at 3.73% in FY19 which improved from 3.18% in FY18. Further, GCA of the company increased from Rs. 87 Mn in FY18 to Rs. 109 Mn in FY19.

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

The capital structure of the company is marked with debt equity ratio of 0.88x and overall gearing ratio of 2.11x at the end of FY19. Interest coverage ratio of the company was comfortable at 3.67x in FY19. Also, TOL/ TNW and total debt/ GCA of the company was moderate at 5.57x and 3.98x respectively in FY19.

**Moderate counter party risk**

Revenue of CAB is generated via contracts from government departments (majorly) related to road works, building works, water supply and sanitation works, bridge works etc. Average collection period of the company was high at 128 days in FY19 (vis-à-vis 125 days in FY18) which primarily includes amount receivable from JV entities for work done on government contracts. 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**

C.A.B. Construction Private Limited is Class “A” construction company of Nepal which was incorporated in the year 1981 but later on converted into private limited company in September 22, 1994 and has registered office based in Lalitpur, Nepal. The company is mainly involved in construction of roads, bridges, buildings, irrigation, canal structures, transmission line, water supply and sanitation works etc. across Nepal. In addition to doing projects independently, CAB also enters into JV with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of CAB for last three years ending FY19 are given below:

For the year ended Mid July	(Rs. Million)		
	2017 (12m, A)	2018 (12m, A)	2019 (12m, P)
Income from Operations	702	1,220	1,500
PBILDT	99	135	178
PAT	29	39	56
Overall Gearing (times)	1.39	2.96	2.11
TOL/ TNW (times)	8.06	7.29	5.57
Interest Coverage (times)	2.96	3.82	3.67

A: Audited, P: Provisional

**Annexure 1: Details of the Facilities Rated**

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	Term Loan	464.53	<b>CARE-NP BB+ Issuer Not Cooperating* (Notice of Withdrawal)</b>
Short Term Bank Facilities	Working Capital Loan	214.00	<b>CARE-NP A4+ Issuer Not Cooperating* (Notice of Withdrawal)</b>
Short Term Bank Facilities	Non-Funded Loan	3,930.00	<b>CARE-NP A4+ Issuer Not Cooperating* (Notice of Withdrawal)</b>
<b>Total</b>		<b>4,608.53</b>	

\*Issuer did not cooperate; based on best available information

**Contact Us****Analyst**

Mr. Nibesh Manandhar  
 +977-01-4012629  
 nibesh.manandhar@careratingsnepal.com

**Senior Analyst**

Ms. Shalini Sanghai  
 +977-01-4012629  
 shalini.sanghai@careratingsnepal.com

**Relationship Contact**

Achin Nirwani  
 +977-9818832909  
 achin.nirwani@careratingsnepal.com

**About CARE Ratings Nepal Limited:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

**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.*