

Motidan Construction Sewa Private Limited

Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating ^[1]	Rating Action
Long-term Bank Facilities	807.39	CARE-NP BB [Double B]	Reaffirmed
Short-term Bank Facilities	629.20	CARE-NP A4 [A Four]	Reaffirmed
Long-term/ Short-term Bank Facilities	6,563.41	CARE-NP BB/ A4 [Double B/ A Four]	Reaffirmed
Total Facilities	8,000.00 [Rs. Eight Billion Only]		

Details of instrument / facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Motidan Construction Sewa Private Limited (MCS).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MCS continues to be constrained by its leveraged capital structure, working capital intensive nature of operations and planned debt funded capex plan of the company. The ratings are further constrained by tender based nature of operations and its presence in highly competitive industry, risk of delay in project execution and exposure to volatile interest rate. The ratings also took cognizance of decline in total operating income during FY20 (Unaudited, refers to 12 months' period ended mid-July 2020).

The ratings, however, derive strength from experienced promoters & management in related field, established track record in executing diversified construction projects, moderate profitability margins and debt service indicators of the company. The ratings also factor in MCS's healthy order book position providing revenue visibility along with escalation clause in majority of the contracts, ownership of sizable equipment and moderate counter party risk.

Ability of the company to successfully execute projects in time and recover contract proceeds and ability to manage healthy revenue growth and maintaining its profitability margins will be key rating sensitivities. Further, ability to manage its working capital requirements and improvement in capital structure will also be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile

Total operating income of the company on consolidated basis declined by ~44% in FY20 majorly due to lower execution of contracts on account of restrictions imposed by GON due to COVID-19 leading to non-carrying out of operations for around 2 months in FY20. The same has improved in the current financial year end in 9MFY21 (refer to 9 months period ended mid-April, 2021), MCS has achieved total revenue of Rs. 2,430 Mn.

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. Despite decline in total revenue, PBIDLT margin improved in FY20 majorly due to execution of better margins contracts during the year and few of the higher value contracts which were in the maturity phase and the profitability margins were high. Though PBIDLT margin improved, PAT margin declined marginally on account of high depreciation and finance cost.

Total debt of the company increased by Rs. 252 Mn to Rs. 829 Mn as on mid-July, 2020 over previous balance sheet date comprising term debt of Rs. 352 Mn, working capital loan of Rs. 243 Mn and mobilization advance of Rs. 234 Mn.

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

The capital structure of the company stood leveraged marked by debt equity ratio of 2.02x and overall gearing ratio (including mobilization advance) of 2.86x at the end of FY20 (consolidated basis). The gearing ratio deteriorated on the balance sheet date of FY20 over previous balance sheet date mainly due to increase in term loans to fund capital expenditure of the company coupled with increase in working capital loans to fund increased operating cycle of the company. Interest coverage ratio of the company was moderate at 3.15x while Total debt/ Gross Cash Accruals of the company was high at 6.66x in FY20.

Working capital intensive nature of business

Though the working capital cycle appears to be moderate, the liquidity profile of the company is modest as reflected from high average utilization of its working capital borrowings during the last 12 months period ended mid-April, 2021. Payment is released after submission of approved bills which normally takes time due to inspection being carried out by respective employer of work done. Average collection period has increased to 147 days in FY20 from 54 days in FY19 mainly due to higher revenue booked at year end as well as delay in realization from few customers leading to high debtors at the end of the year. However, the counter party risk is moderated by the fact that majority of the construction contracts are obtained from government departments. The average operating cycle of the company has elongated on y-o-y basis in last 3 financial years ended FY20 on account of increase in collection period; though elongated, it continued to be remained at moderate levels.

Planned debt funded capital expenditure

MCS has built up an adequate asset base to execute its projects with total fixed asset of Rs. 711 Mn in FY20. Efficient deployment of the resources and investment in machinery during the past years has helped in timely execution of projects. Further, company has been making regular investments in construction equipment / machineries to increase its assets base which is expected to be made through additional loans. Attributed to same, the capital structure of the company is likely to remain leveraged characterized by high overall gearing of above 2 times.

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

MSC'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, MCS 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 & management team in the related field

MCS is being promoted by Mr. Ram Bahadur Gautam and his family members holding 100% of total shares. Mr. Ram Bahadur Gautam, Managing Director, has extensive experience of more than 15 years in the field of construction

business. Mr. Bikram Gautam, is associated with the company for the past 6 years and is looking after the project procurement, financial and technical analysis. The promoters have also been infusing funds into the company to support the business.

Established track record in executing roads, bridges, buildings, cross drainage works, canals and mining and transportation projects

MCS has an established track record of over 10 years in the construction of roads, bridges, cross drainage works, buildings, canals, and mining and transportation of limestone projects and have executed several projects across the country in different terrains. The long track record has enabled the company to establish relations with its customers thereby resulting into repetitive orders/ tenders from the government departments as well as private entities.

Healthy order book position with mid-term revenue visibility

The unexecuted order book of the company as on May 12, 2021 stood at Rs. Rs. 3,476 Mn which is approximately 3x of its total operating income for FY20 on consolidated basis providing short to medium term revenue visibility. The order book of the company is mainly concentrated in road works coupled with other various projects such as such as mining works, water supply and irrigation work, building works and others received majorly from various government authorities. Most of the orders being executed are fixed time in nature and hence effective and timely execution of the orders has a direct bearing on the margins attained.

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

MCS, incorporated in March 03, 2009 and based in Kathmandu, is a mid-scale construction company in Nepal. The company is mainly involved in mining works, construction of roads, bridges, building, irrigation works etc. across Nepal. MCS also enters into joint venture (JV) with other companies in order to meet the eligibility criteria for the projects. The consolidated revenue of the company includes revenue from JV entities in proportion of the company's stake in the JV.

Financial Performance

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Total Operating Income	1,164	2,271	1,281
PBILDT Margin (%)	13.40	9.43	15.73
Overall Gearing Ratio (times)	5.30	2.68	2.86
Total Outstanding Liabilities/Tangible Net worth (times)	9.62	5.43	5.11
Interest Coverage (times)	3.26	4.33	3.15
Current Ratio (times)	1.44	1.20	1.18
Total Debt/Gross Cash Accruals (times)	5.70	4.09	6.66

A: Audited

Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	807.39	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	629.20	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	4,945.00	CARE-NP BB/ A4
Long Term/ Short Term Bank Facilities (Proposed)	Non-Fund Based Limits	1,618.41	CARE-NP BB/ A4
Total		8,000.00	

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About CARE Ratings Nepal Limited:

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