

## Rajendra Nirman Sewa Private Limited

### Rating

Facility	Amount (Rs. In Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	320.65 (Decreased from 368.57)	<b>CARE-NP BB [Double B]</b>	<b>Reaffirmed</b>
Short Term Bank Facilities	278.96 (Increased from 195.00)	<b>CARE-NP A4 [A Four]</b>	<b>Reaffirmed</b>
Long Term/Short Term Bank Facilities	3,824.46 (Decreased from 3,860.40)	<b>CARE-NP BB/ A4 [Double B/ A Four]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>4,424.07</b> <b>(Four Billion Four Hundred Twenty Four Million and Seventy Thousand)</b>		

*Details of Facilities in Annexure 1*

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

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RNS continues to be constrained by leveraged capital structure, 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, planned debt funded capital expenditure and risk of delay in project execution.

The ratings, however, continues to derive strength from experienced promoters and established track record of operations, healthy order book position, satisfactory profitability margins, 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 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

#### ***Working capital intensive nature of business due to elongated collection period though moderate counter party risk***

High utilization of its working capital borrowings which stood around 90% as on May end, 2021 and low current ratio as on the last three balance sheet dates (FY18-FY20, FY refers to 12 months' period ended mid-July) reflects working capital intensive nature of operations. Payments are generally received within 45-60 days from the date of billing. However, there is also delays in realization of bills due to inspection of work or procedural delays leading to increase in collection period. The company has to keep inventory on various sites for smooth execution of contracts for which billing is normally done on monthly basis and the inventory holding stood at around 30 days. The company avails an average credit period of around 3-4 months for procurement of inputs to manage its working capital requirements and average payable days was 99 days for FY20.

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

Revenue of RNS is generated via contracts only from government departments through tender and subcontract basis. Though the company has high collection period; however, the counter party risk is moderated by the fact that contracts are obtained from government departments.

#### ***Leveraged capital structure***

The capital structure of the company stood leveraged marked by debt equity ratio and overall gearing ratio (including mobilization advance) of 2.34x and 3.25x respectively at the end of FY20. Despite increase in total debt during FY20, the overall gearing ratio has shown an improvement to 3.25x at the end of FY20 over previous balance sheet date on account of increase in networth due to accretion of profit coupled with fresh equity infusion in FY20. Also, improving profitability margins has led to increase in GCA levels. Therefore, interest coverage ratio and total debt to GCA stood satisfactory at 4.18x and 4.10x respectively for FY20.

#### ***Planned debt funded capital expenditure***

The company has been making regular investments in construction equipment / machineries to increase its assets base for smooth execution of its projects. Further, it is expected that the company would take additional borrowings for purchase of equipment/machineries which is expected to deteriorate the gearing levels in the medium term.

#### ***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.

#### ***Impact of Covid-19 on its operation***

With increased outbreak of the disease in Nepal, different local Government bodies had re- imposed lockdown in most part of the nation from April 29, 2021 to June 21, 2021. Also, GoN started to ease the construction related activities from early June 2021. RNS operation was impacted for the month of May 2021 with the decrease in work efficiency at the project site however company was able to increase its efficiency from early June 2021.

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

RNS'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, RNS 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***

RNS was promoted by Mr. Bhim Bahadur Saud and his son Mr. Surendra Saud and has established track record of operations of over 13 years in construction of roads, buildings, bridges, irrigations and water projects. Mr. Surendra Saud, managing director, has work experience of 6 years in the construction sector and oversees all operations of the company. Also, he is the Managing Director of Urgatara Construction Company Private Limited. 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.

#### **Healthy 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. 3,146 Mn which is approximately 2.48 times of its total operating income for FY20, thereby providing short to medium 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, canal works, embankment works, road works and bridge works received from various government authorities including 3 national pride projects.

#### **Growing scale of operations and healthy profitability margins**

For the period FY19-FY20, RNS's total operating income (TOI) grew from Rs. 1,218 Mn to Rs. 1,266 Mn. The growth in TOI was on account of higher execution of orders.

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 last 3 years, PBIDLT margin has increased on y-o-y basis. The improvement in margins is on account of economies of scale along with company having executed better margins contracts. However, high dependency on external borrowings and depreciation expenses have been restricting the PAT margin which remained range bound at 5% in FY19 & FY20.

#### **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.

#### **Analytical approach:**

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

#### **About the Company**

Rajendra Nirman Sewa Private Limited (RNS), incorporated on September 24, 1999, is a Class-A construction company of Nepal with registered office based in Dadeldhura, Nepal. Even though the company was registered in 1999, the business of the company started growing from around 2008 onwards. In addition to doing projects independently, RNS 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 year ended Mid July	(Rs. Million)	
	2019 (12m, A)	2020 (12m, A)
Income from Operations	1,218	1,266
PBIDLT Margin (%)	18.97	21.97
Overall Gearing (times)	8.69	3.25
Total Outstanding Liabilities/Tangible Net worth (times)	19.33	7.37
Interest Coverage (times)	2.84	4.18
Current Ratio (times)	1.06	0.98

For the year ended Mid July	2019	2020
	(12m, A)	(12m, A)
Total Debt/ Gross Cash Accruals (times)	6.57	4.10

A: Audited

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

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	320.65	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	278.96	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	3,824.46	CARE-NP BB/ A4
<b>Total</b>		<b>4,424.07</b>	

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