

## Bibas International Construction and Suppliers Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	14.88	CARE-NP BB- [Double B Minus]	Assigned
Short-term Bank Facilities	75.00	CARE-NP A4 [A Four]	Assigned
Long-term/ Short-term Bank Facilities	880.12	CARE-NP BB-/ A4 [Double B Minus/ A Four]	Assigned
<b>Total Facilities</b>	<b>970.00</b> <b>(Rs. Nine Hundred and Seventy Million Only)</b>		

#### *Details of instrument / 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 Bibas International Construction and Suppliers Private Limited (BICS).

#### **Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of BICS are constrained by short track record of operations, limited experience of promoters and modest order book position. The ratings are also constrained by working capital intensive nature of business due to high inventory holding period, tender based nature of operations leading to highly competitive nature of industry, risk of delay in project execution and exposure to volatile interest rates.

The ratings, however, derive strength from growing scale of operations and moderate net profitability, moderate capital structure and debt service coverage indicators of the company, moderate counter party risk with escalation clause in majority of the contracts.

Going forward, the ability of the company to improve its order book position, successfully execute the projects in time and recover contract proceeds as well as manage its growth in revenue while improving its profitability margins will be crucial and act as the key rating sensitivities.

#### **Detailed description of the key rating drivers**

##### **Key Rating Weaknesses**

##### ***Limited promoter experience and short track record of operations***

BICS has been in operations for around 5 years and has a relatively short track record of operations as compared with other established players. Due to the relatively short track record of operations in construction field, its ability to successfully bid and improve its order book position while executing the same remain crucial from analytical perspective. The company is promoted by Mr. Ramesh Rai and Mrs. Mishra Devi Bista having limited experience in the construction field. The promoters have ventured into the construction industry due to the positive industry outlook. The management is supported by an experienced team having significant experience in the construction field.

##### ***Modest order book position with short term revenue visibility, however diversified projects***

The unexecuted orders in hand of the company stood modest at Rs. 491 Mn as on July 01, 2021 which is approximately 1.24x of its total operating income for FY21 (on standalone basis) providing near to short term revenue visibility. The order book of the company has been diversified towards infrastructure projects and civil construction projects. As the company has modest orderbook; hence, effective and timely execution of the orders has a direct bearing on the margins attained.

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

***Working capital intensive nature of business due to high inventory holding period***

The operations of the company are working capital intensive in nature marked by high operating cycle of 131 days in FY21. Also, quick ratio of the company was at lower side of 0.31x in FY21. The company primarily works with government departments having moderate counter party risk leading to moderate collection period of 30-40 days. Also, BICS 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 classifying completed work as work-in-progress. The credit period extended by suppliers of raw materials usually stands at around 2 months depending upon the bargaining power of the company. These factors lead to reliance of the company on bank finance to meet its working capital requirements. The utilization of working capital loan remains on higher side of more than 95% against the drawing power.

***Tender based nature of operations leading to highly competitive nature of industry***

The company majorly undertakes government contracts either directly or on sub-contract basis, which are awarded through the tender-based system. 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. The concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. Moreover, the company is dependent on government spending for the total capital expenditure presented in the union budget every year.

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

BICS'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, BICS has relied on the experience of its management team for timely execution of projects enabling company to build satisfactory standing in the industry as indicated by the repeat orders awarded by its clients.

***Key Rating Strengths******Growing revenue profile of the company on standalone basis, however lower operating margins***

The company is a small player involved in executing various infrastructure projects and civil construction contracts. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its modest scale and limited track record of operations. However, for the period FY19-FY21, BICS's total operating income (on standalone basis) has been increasing on y-o-y basis and stood at Rs. 397 Mn in FY21 (based on provisional results, FY refers to 12 months period ended mid-July) representing a CAGR of around 13%. Despite the growth in total operating income, PBILDT margin remained same during the last 2 FYs (FY20 & FY21) at 8.49%.

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

Total debt of the company mainly comprises of term loans & working capital borrowings which increased by Rs. 42 Mn to Rs. 75 Mn as on mid-July, 2021 over previous balance sheet date. To support the growing scale of operations, the company has taken additional debt in the last 3 financial years ended FY21 which resulted in the moderation of capital structure on y-o-y basis. Though the overall gearing ratio (including mobilization advance) deteriorated on y-o-y basis in that 3 FYs, it continued to remain at moderate levels at 0.79x at the end of FY21 (on standalone level). Interest coverage ratio and TOL/ TNW of the company was comfortable at 5.01x and 1.78x respectively in FY21. Also, Total debt/ GCA was moderate at 3.43x in FY21.

### 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.

### Analytical Approach

CRNL has analyzed BICS's credit profile by considering the standalone financial statements.

### About the Company

Bibas International Construction and Suppliers Private Limited (BICS) is a Class "A" construction company of Nepal which was incorporated in August 13, 2015 with registered office based in Ward No. 6, Chabahil, Kathmandu, Nepal. The company is involved in construction of roads, civil construction, bridges, irrigation and river training works, across various parts of Nepal. BICS also enters into joint venture (JV) with other companies in order to meet the eligibility criteria for the projects.

### Financial Performance

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Total Operating Income	308	359	397
PBILDT Margin (%)	7.01	8.49	8.49
Overall Gearing Ratio (times)	0.37	0.56	0.79
Total Outstanding Liabilities/Tangible Net worth (times)	1.48	2.01	1.78
Interest Coverage (times)	11.05	6.60	5.01
Current Ratio (times)	1.52	1.18	1.55
Total Debt/Gross Cash Accruals (times)	1.07	1.58	3.43

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	14.88	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limits	75.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	880.12	CARE-NP BB-/ A4
<b>Total</b>		<b>970.00</b>	

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