

## C.A.B. Construction Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	404.36 (Decreased from 522.13)	<b>CARE-NP BB+</b> <b>[Double B Plus]</b>	Reaffirmed and removal from issuer not cooperating and notice of withdrawal category
Short Term Bank Facilities	656.00 (Increased from 214.00)	<b>CARE-NP A4+</b> <b>[A Four Plus]</b>	Reaffirmed and removal from issuer not cooperating and notice of withdrawal category
Long Term/Short Term Bank Facilities	3,439.64 (Reduced from 3,930.00)	<b>CARE-NP BB+/ A4+</b> <b>[Double B Plus/ A Four Plus]</b>	Reaffirmed and removal from issuer not cooperating and notice of withdrawal category
Long Term/Short Term Bank Facilities	2,000.00	<b>CARE-NP BB+/ A4+</b> <b>[Double B Plus/ A Four Plus]</b>	Assigned
<b>Total Facilities</b>	<b>6,500.00</b> <b>(Increased from 4,608.53)</b> <b>(Six Billion and Five Hundred Million Only)</b>		

*Details of Facilities in Annexure 1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of CAB continues to be constrained by leveraged capital structure, working capital intensive nature of the business, highly competitive construction industry coupled with tender based nature of the operations and exposure to volatile interest rate. The rating is further constrained by risk of delay in project execution.

The ratings, however, continues to derive strength from long track record of the operation and its experienced promoters with moderate order book position presenting mid-term revenue visibility. The ratings are further strengthened by growing scale of operations and moderate profitability margin.

*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

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

Total debt of the company mainly comprises of term loans, mobilization advance & working capital borrowings increased by Rs. 301 Mn and stood at Rs 991 Mn as on mid-July 2021. The increase in total debt is on account of higher reliance on working capital loan and additional mobilization advance being received to finance to support the increased scale of operations resulting in leveraged capital structure. The increased reliance on loan is further amplified by delayed realisations from debtors. The overall gearing (including mobilization advance) deteriorated to 2.87x as on mid-July FY21 compared to 2.56x as on mid-July FY20. Total outside liability/Total networth also remained high at 4.75x as

on mid-July 2021. However, the interest coverage and total debt/Gross Cash Accruals remained moderate at 2.75x and 6.45x respectively in FY21.

***Working capital intensive nature of the business with low liquidity profile***

The operations of the company are working capital intensive in nature as reflected from high utilization of working capital loans (more than 95% during last 12 months' period ended mid-July, 2021). Due to delayed payments by government entities, the average collection days continued to remain high at 83 days which resulted in increased dependency of CAB on external source of finance leading to high average creditors' days (~140 days in FY21). CAB maintained construction materials as an inventory which was around 1 month i.e. 28 days (vis-à-vis 26 days in FY20). Furthermore, low current ratio also reflected the working capital intensity which stood at 1.08x for FY21.

***Highly competitive construction industry***

CAB receives majority of its work orders from government departments (~more than 95% of outstanding order book) through tenders. The tender-based business is characterized by intense competition with qualification conditions and the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. 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. Furthermore, the business also remains dependent on stability in government policies and fiscal position of the government.

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

CAB'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, CAB 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**

***Long track record and experienced promoters in the field***

CAB has a long track record of operations of more than 4 decades in the construction of various infrastructure projects (mainly water supply and sanitation projects and recently increasing its project in road works). The company is supported by experienced directors lead by Mr. Basant Bahadur Chand, Managing Director, with 14 years of experience in the company who looks over management and execution of overall projects. Board of directors are further supported by an experienced team across various functions/ departments.

***Healthy revenue growth with moderate order book position***

CAB recorded healthy revenue growth with CAGR of 20% (between FY18 - FY21) coupled with moderate PBILDT margin of ~13.39% and PAT margin of ~3.60% in FY21. The Y-o-Y positive growth is due to CAB's established and strong track record of operations enabling it to obtain new contracts and also execute the same in timely manner. The outstanding order book increased to Rs. 3,306 Mn as of mid-September FY21 which reflects mid-term revenue visibility for next 2 years. The tenure of the orders undertaken by the company is up to 40 months. The order book of the company is diversified with major contract consisting of road projects (i.e. 52%) and water and sanitation projects (i.e. 33%).

***Escalation clause in majority of contracts***

CAB 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.

**Analytical approach:**

CRNL has analyzed CAB’s credit profile by considering the consolidated financial statements (comprising CAB and its joint venture entities related to the construction works) owing to financial and operational linkages between CAB and the JV entities.

**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 work 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.

**Financial Performance: Consolidated**

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Income from Operations	1,500	1,766	2,098
PBILDT Margin (%)	11.37	13.16	13.39
Overall Gearing (times)	2.38	2.56	2.87
Total Outstanding Liabilities/Tangible Net worth (times)	5.76	5.47	4.75
Interest Coverage (times)	4.07	3.11	2.75
Current Ratio (times)	1.33	1.11	1.08
Total Debt/ Gross Cash Accruals (times)	5.02	4.46	6.45

A: Audited, UA: Unaudited

**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	404.36	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Working Capital Loans	656.00	CARE-NP A4+ [A Four Plus]
Long Term/ Short Term Bank Facilities	Non-Funded Loans	5,439.64	CARE-NP BB+/ A4+ [Double B Plus/ A Four Plus]
<b>Total</b>		<b>6,500.00</b>	

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