

Kankai International Builders Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	97.52 (Increased from 51.66)	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	42.29	CARE-NP A4+ [A Four Plus]	Reaffirmed
Long Term/ Short Term Bank Facilities	2,859.58 (Reduced from 2,906.05)	CARE-NP BB+ /A4+ [Double B Plus/ A Four Plus]	Reaffirmed
Total Facilities	3,000.00		

Details of 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 Kankai International Builders Private Limited (KIB).

Analytical approach:

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

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of KIB factor in working capital intensity of the business and its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings are further constrained by exposure to volatile interest rates and risk of delay in project execution. The ratings also took cognizance of decline in total operating income during FY21 (provisional; FY refer to 12 months' period ending mid-July). The ratings, however, derive strength from experienced promoters & management team coupled with established track of operations, moderate profitability margins, gearing levels with moderate debt service indicators, moderate order book position, 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, maintaining its financial risk profile and recover contract proceeds will be key rating sensitivities.

Key Rating Weaknesses

Working capital intensive nature of business

The company works with government departments either directly or through subcontract basis. Payments for government contracts are mostly received within few days after presenting the bill. Additionally, due to delay in approval of bills by government departments, KIB has been facing delays in sales realization. However, KIB has high retention money due to the nature of the business. These factors lead to reliance of the company on bank finance to meet its working capital requirements. Consequently, the company has almost full utilization against drawing power of its working capital borrowings for the last 12 months ended September 2021.

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

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

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

KIB'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, KIB 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 & established track record of operations

KIB is being promoted by Mr. Ram Prasad Mainali and his family members. Mr. Ram Prasad Mainali, Chairman, has been leading the company since its inception from 1987. He looks after day-to-day operations of the company. Board of Directors are further supported by an experienced team across various functions/ departments.

KIB started operations in 1987 and has over 3 decades in the construction of roads, bridges, water and sanitation projects, buildings and irrigation projects ranging from small size to large size projects. The long track record has enabled the company to establish relations with its customers thereby resulting into repetitive orders/ tenders from the government departments.

Moderate order book position with mid-term revenue visibility

As mid-September, 2021, the unexecuted orders in hand of the company stood at Rs 11,029 Mn on consolidated basis with Rs. 5,657 Mn for share of KIB reflecting mid-term revenue visibility for the next 3.5 years based on TOI of FY21. The tenor of the contracts executed varies from 18 to 48 months. The order book is diversified across water supply & sanitation works (~57%) and road work (~40%) with further diversification to irrigation, river training, building and bridge work. Timely completion of the projects and thereby increasing its scale of operations with building up new order books would be critical from the credit perspective.

Moderate financial risk profile

The total operating income (TOI) of the company declined by 16% to Rs. 1,304 Mn in FY21 mainly due to delay in execution of order book in hand due to Covid-19 along with delay in invoicing of work completed. However, despite decline in TOI, PBILDT margin remained moderate and almost stable at 9.84% in FY21 (9.87% in FY20).

Total debt of the company which mainly comprises term loans, working capital borrowings and mobilization advances and total debt decreased by Rs. 80 Mn in FY21 over previous year to Rs. 234 Mn as on mid-July, 2021. With decrease in the total debt, overall gearing ratio (including mobilization advance) of the company on consolidated basis has improved to 0.84x as on mid-July 2021 (~1.32x as on mid-July 2020) and remained at satisfactory level. This was mainly on account of improvement in the networth coupled with scheduled repayment of term loan in FY21. With decrease in finance cost on account of scheduled repayment of term loan, interest coverage ratio of the company improved from 6.38x in FY20 to 7.81x in FY21. Also, TOL/ TNW and total debt to GCA of the company improved to 2.33x and 2.49x respectively in FY21 compared to 3.43x and 2.90x in 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.

About the Company

Kankai International Builders Private Limited (KIB) is a private limited company, incorporated in July 26, 1987 with registered office based in Jhapa, Nepal. KIB is an ISO 9001:2015 certified on December 2020. In addition to doing projects independently, KIB also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of KIB (Consolidated) for last three years ending FY21 are given below:

(Rs. Million)

For the year ended Mid July	FY19	FY20	FY21
	(Audited)	(Audited)	(Provisional)
Income from Operations	1,517	1,561	1,304
PBILDT Margin (%)	8.51	9.87	9.84
Overall Gearing (times)	1.01	0.76	0.84
Total Outstanding Liabilities/Tangible Net worth (times)	3.10	3.43	2.33
Interest Coverage (times)	7.66	6.38	7.81
Current Ratio (times)	1.17	1.15	1.43
Total Debt/ Gross Cash Accruals (times)	2.32	1.62	2.49

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loans	97.52	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loans	42.29	CARE-NP A4+
Long Term/ Short Term Bank Facilities	Non-Funded Loans	1,205.00	CARE-NP BB/ A4
Long Term/ Short Term Bank Facilities (Proposed)	Non-Funded Loans	1654.58	CARE-NP BB+/ A4+
Total		3,000.00	

Contact Us

Analyst

Mr. Rabin Tamang
+977-01-4012629
rabin.tamang@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.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.