

Jambudip Construction Private Limited

Ratings

| Facilities | Amount (Rs. in Million) | Ratings ¹ | Rating Action |
|--------------------------------------|--|---|-----------------|
| Long Term Bank Facilities | 6.86 | CARE-NP B+ [B Plus] | Assigned |
| Short Term Bank Facilities | 10.50 | CARE-NP A4 [A Four] | Assigned |
| Long Term/Short Term Bank Facilities | 882.64 | CARE-NP B+ /A4 [B Plus/A Four] | Assigned |
| Total Facilities | 900.00 (Nine Hundred Millions Only) | | |

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Jambudip Construction Private Limited (JCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JCPL are constrained by small and fluctuating scale of operations with concentrated orderbook, working capital intensive nature of the business, tender based nature of operations in highly competitive construction industry and risk of delay in project execution.

The ratings, however, derive strength from experienced promoters, moderate capital structure & debt service coverage indicators and escalation clause in majority of the contracts.

Going forward, the ability of the company to profitably scale up its operations though diversification 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

Small scale of operation with concentrated project portfolio

JCPL is a relatively small player in business of construction. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low capital base of Rs. 38 Mn as on mid-July 2021 and total operating income of Rs. 174 Mn in FY21 (Unaudited, FY refers to 12 months' period of mid-July 2020 to mid-July 2021). The small scale of operations in a competitive industry limits the pricing power and benefits of economies of scale.

JCPL's outstanding order book as of mid-November 21 stood at Rs. 553 Mn which is majorly concentrated towards bridge construction works which is ~89% of the total portfolio and remaining work is for building construction. The limited exposure to the diverse sectors limits JCPL's execution capabilities which would restrict the order book position and have limited revenue growth in the upcoming years.

Below average financial risk profile

JCPL has fluctuating total operating income (TOI) in last 3 years ending FY21. TOI has registered a decline on y-o-y basis in FY20 and growth in FY21. The decline was on account of no contracts being awarded during the year coupled with impact of COVID-19 resulting delay in payments affecting projects execution.

PBILDT margin have remained at range bound in between 8-10% in the above said period of 3 financial years. The capital structure and debt service coverage indicators stood satisfactory for the company in FY20 and FY21 with overall gearing standing at around unity level in last 2 years ending FY21; however, total outstanding liabilities/tangible net worth remained high which stood at around ~3x on the balance sheet dates of last 2 years (FY20-FY21).

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

Working capital intensive business

Though the working capital cycle appears to be moderate, the liquidity profile of the company is stretched. This is primarily on account of the high inventory holding. The company works with government and private departments with payments for contracts being delayed due to budget constraints. The average inventory holding days remained high at 209 days as on FY21 as compared to 292 days in FY20. Work done by the company needs to be verified by the consultants/ engineers of both JCPL and government beforehand to raise the bill to the concerned authority leading to high inventory days which is further contributed by work in progress. The total inventory includes work in progress of around ~62% of total inventory. Due to project work being delayed, significant amount of capital is being tied up as an inventory, as a result the company has sought reliance on external source of finance. On account of above, the working capital requirements are huge which are funded primarily by bank borrowings and high payable period of 188 Days. The company has high working capital utilization of ~87% for the 12 months ending mid- November, 2021.

Tender based nature of operations in highly competitive construction industry

The company receives its work orders majorly from government departments (~90% of the outstanding project value) and also from private entity related to building and bridge works. 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.

Risk of delay in project execution

JCPL'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, JCPL 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**

JCPL is promoted by Mr. Ram Bahadur Khatri, Mr. Sagar Khatri and Suraj. Mr. Ram Bahadur Khatri, Managing Director, has 26 years of experience in construction projects with specialization in building work and manages overall projects and operation of the company. Mr. Sagar Khatri, Director has experience in administration and marketing department who oversees tender and administrative function of the company. Board of directors are further supported by an experienced team across various functions/ departments.

Escalation clause in majority of the contracts with moderate counter party risk

JCPL procures its construction materials mainly from the local vendors which has risk of volatility in raw material prices. 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 labour expenses.

The counter party risk is moderated by the fact that significant portion of the construction contracts are from government departments, impact of COVID-19 slowing down and government budget for FY22 being released for payment of government related transaction.

Analytical approach:

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

About the Company

Jambudip Construction Private Limited (JCPL), was first introduced in Nepal in the year 2006 as a “C” class construction company with registered office based in Basundhara, Kathmandu. The company is mainly involved in construction of buildings both government and private including commercial complex and health care center along with bridge work. JCPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of JCPL (Standalone) for last three years ending FY21 are given below:

(Rs. Million)

| For the Period Ended / as at Mid-July, | 2019 | 2020 | 2021 |
|--|----------|----------|-----------|
| | (12m, A) | (12m, A) | (12m, UA) |
| Income from Operations | 253 | 161 | 174 |
| PBILDT Margin (%) | 7.58 | 10.47 | 8.87 |
| Overall Gearing (times) | 1.93 | 1.11 | 0.87 |
| Total Outstanding Liabilities/Tangible Net worth (times) | 6.52 | 3.76 | 2.98 |
| Interest Coverage (times) | 8.98 | 7.79 | 8.22 |
| Current Ratio (times) | 1.25 | 1.30 | 1.39 |
| Total Debt/ Gross Cash Accruals (times) | 3.72 | 2.86 | 2.84 |

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 | 6.86 | CARE-NP B+ [B Plus] |
| Short Term Bank Facilities | Working Capital Loans | 10.50 | CARE-NP A4 [A Four] |
| Long Term/ Short Term Bank Facilities | Non-Funded Loans | 882.64 | CARE-NP B+ / A4 [B Plus/A Four] |
| Total | | 900.00 | |

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About CARE Ratings Nepal Limited:

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