

BKOI Builders Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities- Term Loan	180.34 (Decreased from Rs. 325.59 Mn)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities- Overdraft	840.00 (Increased from Rs. 540.00 Mn)	CARE-NP A4 [A Four]	Reaffirmed
Long Term/ Short Term Bank Facilities- Non-Funded Loan	3,705.25 (Decreased from Rs. 3,860.00 Mn)	CARE-NP BB/A4	Reaffirmed
Total Bank Facilities	4,725.59 (Four billion Seven hundred Twenty-five million five hundred Ninety thousands only)		

*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 BKOI Builders Private Limited (BBPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of BBPL continues to be constrained by leveraged capital structure of the company, elongated collection period, tender based nature of operations in highly competitive construction industry, planned debt funded capital expenditure and exposure to volatile interest rates. The reaffirmation of ratings also took cognizance of fluctuations in total operating income of the company in last 3 financial years (FY19-FY21, FY refer to 12 months' period ended mid-July 2021).

The ratings however, continues to derive, strength from experienced promoters & management, satisfactory profitability margin, moderate debt servicing ratio of the company. The ratings also factor in moderate order-book providing revenue visibility.

Going forward, the ability of the company to successfully execute projects in timely manner to improve its scale of operations and maintain profitability margins coupled with improvement in working capital will be key rating sensitivities. Furthermore, the increase in order-book of the company is also crucial for growth prospective and also act as key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Below averages financial risk profile

Company's total operating income has been fluctuating over the past three years (FY19-FY21). TOI has registered a decline on y-o-y basis in FY20 and registers a growth in FY21. The main reason for decline in TOI in FY20 to Rs. 634 Mn was on account of Covid-19 induced lockdowns directly impacting the execution of the projects. During FY21, TOI of the company stood at Rs. 833 Mn registering a growth of ~31% over the previous financial year.

Profitability margins of the company are directly associated with technical aspects of the contract. The company undertakes contracts which are technical and complex in nature which leads to high PBIDLT margin of the company. However, despite fluctuating TOI, PBIDLT margin remained moderate and almost stable at 24.58% in FY21 (26.50% in FY20).

Total debt which mainly comprises of hire purchase loan, mobilization advance and working capital borrowings and total debt increased by Rs. 140 Mn in FY21. The capital structure of the company is leveraged marked with overall gearing ratio

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

(including mobilization advance) of 2.95x as on mid-July 2021 (~3.75x on the balance sheet date of FY20). Despite increase in debt levels in FY21, the improvement in overall gearing is mainly attributed to increase in net-worth base due to equity infusion of Rs. 50 Mn and retention of profit. Also, total outside liability to total net-worth and total debt to gross cash accruals remained high at 3.56x and 7.76x respectively at the end of FY21 (~vis-à-vis 5.74x and 8.75x respectively at the end of FY20). The interest coverage stood moderate at 2.70x for FY21 (PY: 2.18x).

Elongated collection period though moderate operating cycle

The working capital cycle appears to be moderate as reflected from the current ratio of 1.39x for FY21 and moderate utilization of its working capital borrowings which stood at 80% for last 12 months ended mid-July 2021. This is primarily because the company receives a payable period of around four months from its suppliers and average payable period stood at 117 days for FY21. The company primarily works with government departments and payments for contracts are received in a timely manner within 1-2 months. However, the average receivable days remained high at 109 days as on FY21 on account of delay in approval of bills by government departments, which has resulted in delays in sales realization. BBPL maintained construction materials as an inventory which was around 41 days in FY21 vis-à-vis 35 days in FY20. On account of above, the operating cycle of the company remained moderate at 33 days in FY21 which was 20 days in FY20.

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.

Planned debt funded capital expenditure

The company has been making regular investments in construction equipment / machineries to increase its assets base for the smooth execution of its projects. Furthermore, it is expected that the company will take additional loans for purchase of equipment/machineries for the new projects proposed to be undertaken in future. Attributed to same, the capital structure of the company is likely to remain leveraged due to capex term loans expected to be taken in future.

Key Rating Strength

Experienced promoters with established track record in the related fields

BBPL is managed under the overall guidance of the company's three board of directors (BOD) who possess significant experience in construction industry. The company is promoted by Mr. Humnath Koirala, managing director, who has long experience of over 39 years in the field of construction business. Similarly, other directors of the company have related experience in construction business. BOD's are further supported by an experienced team across various functions/ departments.

BBPL has an established track record of over 12 years in the construction of buildings, bridges, reservoirs, roads, river training, irrigation and water projects ranging from small sized to large sized projects and have executed several projects (majority of which are building projects) across the country in different terrains either individually or through its joint venture (JV) entities.

Moderate order book position though concentrated

The unexecuted orders in hand of the company stood moderate at Rs. 1,558 Mn as on December 20, 2021 which is approximately 1.87x of its total operating income for FY21 (on standalone basis) providing medium term revenue visibility. The order book of the company is mainly concentrated in works related to building construction projects (i.e. ~81% of total work order) from various government authorities coupled with other various projects such as road works, water supply &

irrigation project and bridge works received from various government authorities. Timely completion of the projects and thereby increasing its scale of operations would be critical from the credit perspective for BBPL.

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 construction cost 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 prospective.

Analytical approach

CRNL has analyzed BBPL's credit profile by considering the Standalone financial statements.

About the Company

BKOI Builders Private Limited, incorporated on December 21, 1997, is a mid-scale construction company based in Kathmandu, Nepal. The company is promoted by Mr. Humnath Koirala who holds 74.5% of total shares of the company. The company has been involved in construction of both small and large scale projects such as buildings works, irrigation works, water supply works, road works etc. across Nepal. BBPL also enters into JV with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

(Rs. in Million)

For the Period Ended / as at Mid-July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Total Operating Income	875	634	833
PBILDT Margin (%)	16.62	26.50	24.58
Overall Gearing Ratio (times)	3.80	3.75	2.95
Total Outstanding Liabilities/ Tangible Net worth (times)	5.05	5.74	3.56
Interest Coverage (times)	2.03	2.18	2.70
Current Ratio (times)	1.46	1.24	1.39
Total Debt/ Gross Cash Accruals (times)	9.77	8.75	7.76

A: Audited; UA: Unaudited

Annexure 1: Details of the Facilities rated

Nature of the Bank Facilities	Type of facilities	Amount (Rs. in Million)	Ratings
Long Term Bank Facilities	Term Loan	180.34	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	840.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loan	3,705.25	CARE-NP BB/A4
Total Facilities		4,725.59	

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