

Sakcham Nirman Company Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	113.61	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	272.90	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	1,713.49	CARE-NP A4 [A Four]	Assigned
Total Bank Facilities	2,100.00 (Two billion and One hundred million only)		

**Details of 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 Sakcham Nirman Company Private Limited (SNCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNCPL are constrained by short track record of operations, below average financial profile marked by fluctuating total operating income and depleting profitability margins and leveraged capital structure. The ratings are also constrained by working capital intensive nature of business due to high receivables period, tender based nature of operations & its presence in highly competitive nature of industry and exposure to volatile interest rate.

The ratings, however, derive strength from experienced promoters in the related construction field, moderate order book position and diversified projects.

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 sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Short track record of operations

SNCPL was incorporated in October 2018 and is a small scale 'Class D' construction company in Nepal. The company is involved in construction of both small and medium scale projects mainly relating to road works, cross drainage and embankment works, track opening activities and irrigation works. The construction companies' experiences are derived from the number of projects completion and due to its short track record and limited project executions, the ability of the company to scale up to larger-sized contracts having better operating margins is constrained.

Below Average financial profile marked by fluctuating revenue and low profitability

The revenue of the company is fluctuating over last three financial years (FY19-FY21) where by the company reported total operating income of Rs. 555 Mn in FY19, Rs. 216 Mn in FY20 and Rs. 591 Mn in FY21. The decline in the revenue during FY20 is mainly attributable to the restrictions imposed by the Government which had halted the construction activities at the sites resulting into delays in projects completion. The spillover projects were completed in FY21, thus increasing the revenue during FY21. Though increment in total revenue in FY21, PBILDT margin, however, declined to 17.55% in FY21

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

(FY20:27.22%) majorly on account of increase in prices of construction materials like cements, steels, irons etc. during FY21. Furthermore, the company has to spend significantly to mobilize of the labor at project sites after the Covid-19 disturbances. The company reported net profit of Rs. 15 Mn in FY21 (FY20: Rs. 8 Mn). The ability of company to successfully bid for construction contracts, improve its order book position and stabilize its revenue profile over the years remains key rating consideration.

Leveraged Capital Structure

The capital structure of the company is leveraged marked by debt equity ratio of 1.62x and overall gearing ratio of 4.87x at the end of FY21 (vis-à-vis 3.08x and 4.44x respectively at the end of FY20). There was infusion of capital to the tune of Rs. 30 Mn in FY21 (Rs. 16 Mn in FY200 which led to improvement in debt equity ratio at the end of FY21. However, due to increase in working capital loans from Rs. 63 Mn at the end of FY20 to Rs. 247 Mn at the end of FY21, the overall gearing ratio has deteriorated during FY21. The debt service indicators like interest coverage ratio stood at 2.43x and total debt to GCA stood at 6.63x at the end of FY21.

Working capital intensive nature of business due to high receivables from JVs

The operations of the company are working capital intensive in nature due to the elongated total operating cycle of the company. The total operating cycle stood at 92 days in FY21. The major factor leading to high operating cycle is on account of high receivables from its JVs. As the company is new entrant in the construction sector, it has entered into sub-contracting work with liberal payment terms. Due to delay in payment realization, the company has high liabilities towards its creditors, resulting into creditors' payment days above 4 months. On account of regular billing to its customers, the company had low inventory holding days during FY21. Consequently, 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 during last 12 months' period ended in mid-July 2021.

Tender based nature of operations in highly competitive nature of industry

The company majorly undertakes government contracts mainly on sub-contract basis with its JVs, 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.

Key Rating Strength

Experienced promoters in the related fields

SNCPL has total three directors in its board. The company is promoted by Mr. Dambar Bahadur Khadka and his family members holding 100% of total share capital of the company. Mr. Dambar Bahadur Khadka, Chairman, has work experience of over two decades in the construction sector and looks after operations overall operations of the company. He is also associated with Gajurmukhi Nirman Company Private Limited (GNCPL) [CARE-NP BB/A4].

The day-to-day operations are overseen by Mr. Sameer Khadka, director, who has more than four years of work experience in the construction business. He was also previously involved in GNCPL in various positions. The directors are further supported by experienced management team.

Moderate order book position and diversified projects in-hand

As on mid-December 2021, the unexecuted order of the company stood at Rs. 559 Mn The tenure of the order undertaken by the company is up to 18 months giving near-term revenue visibility. The order book is majorly concentrated to road works (~71% of outstanding work) with diversification into bridge, canal, embankment works (~22% of outstanding work) and water supply & irrigation work (~7% of outstanding work).

About the Company

Sakcham Nirman Company Private Limited (SNCPL), incorporated on October 2, 2018 as a Class-D construction company of Nepal with registered office based in Samakhushi, Kathmandu. The company is involved in construction of roads, bridges, canals, embankment and irrigation works across various parts of Nepal. The company enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects for bidding and execution of contracts.

Financial Performance

For the Period Ended / as at Mid-July	(Rs. in Million)	
	2020 (12m, A)	2021 (12m, UA)
Total Operating Income	216	591
PBILDT Margin (%)	27.22	17.55
Overall Gearing Ratio (times)	4.44	4.87
Interest Coverage (times)	3.40	2.43
Current Ratio (times)	0.98	0.95
Total Debt/ Gross Cash Accruals (times)	5.26	6.63

A: Audited; UA: Unaudited

Annexure 1: Details of the Facilities rated

Nature of the Facilities	Type of facilities	Amount (Rs. in Mn)	Rating
Long Term Bank Facilities	Term Loan	113.61	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limits	272.90	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	1,713.49	CARE-NP BB-/A4
Total Facilities		2,100.00	

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