

Abisa Nirman Sewa & Suppliers Private Limited

Rating

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term/Short Term Bank Facilities- Non-Funded Loan	510.00	CARE-NP BB/ A4 [Double B/ A Four]	Reaffirmed
Total Facilities	510.00 (Five Hundred Ten Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Abisa Nirman Sewa and Suppliers Private Limited (ANSS).

Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANSS are constrained by its nascent track record in executing construction projects, however with growing order book position. The ratings also factor in small scale of operation with highly concentrated order book position, tender based nature of operations in highly competitive construction industry and working capital intensive nature of business.

The ratings, however, derive strength from experienced promoter in construction sector, financial profile characterized by growth in the revenue and PBILDT albeit low profitability margins during FY21 (Unaudited, refers to the twelve-month period ended mid-July 2021). The ratings also factor in moderate order book position with mid-term revenue visibility, low Total Outside Liabilities/ Tangible Net-worth (TOL/TNW) ratio, moderate counter party risk and escalation clause in majority of the contracts.

Going forward, ability of the company to successfully execute projects in time and recover contract proceeds and ability to manage healthy revenue growth while maintaining profitability margins without deterioration in its financial risk profile are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Nascent track record in executing road, building and flood management works however growing order book position.

ANSS has a track record of around four years in the construction of building works (majorly), road works and flood management works through its joint-venture (JV) entities and sub-contract or individually. Due to the relatively short track record of the company in construction field, its ability to successfully bid for construction contracts, improve its order book position and revenue profile over the period remains key rating consideration.

Small scale of operations with highly concentrated albeit moderate order book position

The company is a small player involved in executing civil construction contracts. 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. 50 Mn as on July 15, 2021 and total operating income of Rs. 292 Mn during FY21. The small scale of operations in a competitive industry limits the pricing power and benefits of economies of scale.

As on January 14, 2022, the unexecuted orders in hand of the company stood at Rs. 1,257 Mn. The present order book to FY21 revenue is around 4.31x which provides mid-term revenue visibility. Out of total order book of the company,

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

around 28% is concentrated towards one single building project of Government. Furthermore, around 89% of the order book is concentrated towards civil construction works. This exposes company to order book concentration risk as failure or delay in successful execution of these projects is likely to impact operations and cash flows of the company.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature as company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bill is done. Average collection period of the company was at 92 days at the end of FY21, compared to 83 days at the end of FY20, which primarily includes amount due for work done by the company on behalf of the JVs. Furthermore, ANSS' inventory holding period, with major inventory being construction materials, was around 30 days at the end of FY21 compared to 24 days at the end of FY20. These factors lead to reliance of the company on borrowings to meet its working capital requirements.

Low operating margins though Escalation clause in most contracts

The company's PBILDT margin, however, increased only by 24 bps to 5.55% during FY21, with impact of increased turnover being offset by higher execution of lower margin contracts during the year. Consequently, PAT margin of the company declined slightly to 3.14% in FY21 from 3.56% in FY20.

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. 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 remains critical from credit perspective.

Tender based nature of operations in highly competitive construction industry

The company receives its work orders from subcontract and government departments with majority of the order coming from government contracts. All government contracts are tender-based wherein the company has to quote the bid. Hence, ANSS faces the risk of successful bidding for the tenders, which again comes with the risk of quoting a low price amid increased competition, although the promoter's reasonable industry experience in related field mitigates risk of competition to some extent. With regard to subcontract, the contract is generally awarded on negotiation basis with the client. Furthermore, the business also remains dependent on stability in government policies and fiscal position of the government.

Key Rating Strengths

Experienced promoters in the related fields and moderate track record of operations

ANSS is promoted by Mr. Arjun Dahal, Managing Director, who has been leading the company since its inception from February 2018 and has experience of more than a decade in the field of construction contract business. He is responsible for overall planning, management and execution of projects undertaken by the company. Mr. Bharat Giri, Director, has an experience of more than a decade in construction and looks after overall operations of the company. Furthermore, the board is supported by an experienced team across various functions.

Growing scale of operations with satisfactory capital structure

ANSS' total revenues increased by 46% year on year to Rs. 292 Mn in FY21 boosted by execution of work in hand. The company has availed demand loan of Rs. 40 Mn in FY21 and non-fund-based limits from Banks for guarantee purpose. It had remained debt-free till FY20. Overall gearing ratio of the company stood at 0.53x at the end of FY21. Total Outside Liabilities /Tangible Networth of the company was 0.72x at the end of FY21, declining marginally from 0.69x at the end of FY20 due to increase in working capital loans of the company. Overall credit metrics of the company remains comfortable marked by low leverage profile.

Moderate counter party risk

Revenue of ANSS is generated via construction contracts from government departments and subcontracts. In absolute amount, debtor outstanding at the end of FY21 increased to Rs. 82 Mn from Rs. 66 Mn at the end of FY20 which primarily includes amount due for work done by the company on behalf of the JVs. However, the counter party risk is moderated by the fact that majority of the construction contracts are obtained from government departments, which have been making timely payment to the company in past.

About the Company

Abisa Nirman Sewa & Suppliers Private Limited (ANSS), is a Class "D" construction company in Nepal incorporated on February 26, 2018 with registered office in Kathmandu, Nepal. The company is mainly involved in constructing various type of projects which includes building construction, road construction, river training works and flood management works. In addition to doing projects independently, ANSS also enters into JV with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	FY20 (A)	FY21 (UA)
Income from Operations	200	292
PBILDT	11	16
PAT	7	9
Overall Gearing (times)	Nil	0.53
Interest Coverage (times)	Nil	5.30
TOL/ TNW (times)	0.69	0.72

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/ Short Term Bank Facilities	Non-Fund Based Limits	510.00	CARE-NP BB/A4 [Double B/ A Four]
Total		510.00	

Contact Us

Analyst Contact

Mr. Girish Bhatta
+977-9802335866
girish.bhatta@careratingsnepal.com

Senior Analyst Contact

Ms. Shalini Sanghai
+977-01-4012629
shalini.sanghai@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

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The Unified Directives, 2078 issued by NRB has changed the validity of ratings to two years, however, in view of the SEBON regulations stating regular monitoring along with mandate agreement with the client which mentions annual detailed review of the rating assigned, CRNL continues to mention validity of the ratings as one year.