

C.C.S. Nepal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	1,350.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,350.00 (One Thousand Three Hundred Fifty Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP-A4' to the short-term bank facilities of C.C.S. Nepal Private Limited (CCS Nepal).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of CCS Nepal is constrained by its leveraged capital structure and working capital intensive nature of operations owing to substantial funding requirement pertaining to current projects. The rating also factors in financial risk profile marked by revenue concentration risk with limited revenue visibility, average profitability margins and high interest outlay along with interest rate risk.

The rating, however, derives strength from support and expertise derived from ultimate parent company, moderate track record of operations in Nepal, growing scale of operations boosted by high value project at hand and favorable industry outlook for the telecommunications sector in the country.

Going forward, the ability of the company to sustain healthy growth in business, maintaining adequate profitability and liquidity, and lower borrowing levels leading to improved capital structure will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure owing to substantial funding requirement pertaining to ongoing projects

Overall gearing ratio of CCS Nepal was high at around 5.65 times at the end of FY21 (Audited, FY refers to the twelve-month period ended mid-July), increasing from 3.99x at the end of FY20, on account of increased debt levels during the year. The company's total debt had increased substantially in FY21 to Rs. 1,275 million from Rs. 730 million at the end of FY20 to cater to the working capital requirements, particularly to that related to the 4G project of Nepal Telecom. Consequently, the company's total debt/GCA deteriorated to 29.37x at the end of FY21 from 14.65x at the end of FY20. Similarly, interest coverage also decreased during FY21 to 1.55x from 2.88x during FY20. The debt levels of the company are directly linked to the projects in progress and a higher debt level is usually indicative of a large project with substantial reciprocal revenue inflow for the company. However, the amount of current debt remains high, commensurate to the company's network, resulting in elevated overall gearing levels.

Revenue concentration risk and limited revenue visibility beyond ongoing projects

The company's operation is exposed to revenue concentration risk as over 80% of the company's revenues in FY20 and FY21 were attributable to a single project. Revenue concentration risk, however, is partly offset by the credit strength and track record of the counterparty, which is a state-owned telecommunication operator. Hence, counterparty risk remains low. However, the company's revenue visibility is mainly limited to the projects at hand, which is likely to be completed within the next twelve months. The scale of operations, after completion of the current projects, remains unpredictable and would depend on the company's ability to successfully bid for newer projects when they become available.

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

Project dependent working capital intensive nature of operations

The company's operations are working capital intensive marked by high collection period. The company requires substantial working capital borrowings to pay to its sub-contractors once the contracted work is completed by them. However, payment from the client usually takes 3-4 months, which is received after furnishing of completion certificate and approval from authorities at various levels. Although counterparty risk remains low, collection period is generally quite elongated. Hence, the company has been relying on borrowings from the bank to meet its working capital requirements over FY20-FY21.

High interest outlay and interest rate risk

The company's interest expense is based on floating rates which reset every quarter. The base rate of the banks and financial institutions in Nepal remains quite volatile as they are impacted by change in liquidity position which leads to change in interest rates. Therefore, funding taken by the company from banks is subject to volatile interest rate. Sustained requirement for short-term working capital borrowings pertaining to the ongoing projects has led to a high interest expense for CCS Nepal, increasing to Rs. 108 million during FY21 from around Rs. 35 million during FY20. Although interest coverage has remained adequate, increased interest outlay coupled with volatile interest rates could impact the company's overall profitability.

Key Rating Strengths**Strength and expertise derived from strong parentage**

CCS Nepal's ultimate parent China Communication Services Corporation Limited (China Comservice) is one of the major network builders for the telecommunication operators in China. CCS Nepal, being a wholly owned subsidiary, is closely managed and monitored by the parent as all the key management personnel are appointed and supervised by the parent. Furthermore, CCS Nepal is in the same line of business as its parent and thus has access to the long-established expertise and heritage as well as the innovative technical capabilities and solutions of the parent entity. CCS Nepal, with support and supervision from its parent, is establishing itself as an integrated service provider to the telecommunications, media and technology industries in Nepal.

Moderate track record of operations in Nepal

CCS Nepal is operating in Nepal for around a decade. Currently, it is amongst the major vendors in the niche telecommunication infrastructure development and service business in the country. The company has till date completed various projects for leading telecommunication operators in the country. Some of its major completed and ongoing projects include the Ncell Solar System Project, China Embassy (Nepal) information and communications technology project, Chaudhary Group fiber to the home project, Nepal Telecom 4G project among others. An established presence in the niche segment with proven track record at both domestic as well as at parent level bodes well for the company's prospects of successfully bidding for newer projects going forward.

Higher revenue base over FY20-FY21 boosted by larger projects though profitability remains volatile

CCS Nepal's revenue base has been around Rs. 1,300- Rs.1,500 million during FY20 and FY21 aided mainly by the ongoing Nepal Telecom 4G project. Furthermore, the company had Rs. 1,376 million accrued receivable of progress income at the end of FY21, which is likely to be booked over FY22-FY23. Although the company's PBILTD margin improved to 12.19% during FY21, it has historically remained quite volatile as expenses related to projects keep fluctuating based on the prices of construction materials and the availability of sub-contractors. PBILTD margin was lower during FY20 at around 6.30% despite higher revenues than FY21. The company reported net profits of Rs. 42 Mn during FY21, slightly lower than Rs. 49 Mn reported in FY20, impacted majorly by higher interest expense during FY21. The ability of the company to sustain

scale of operations, by successfully bidding for tenders, and maintaining adequate profitability margins remains critical for its financial health.

Steady historical performance with positive tangible network

CCS Nepal's historical financial performance has remained steady. The company had accumulated profits from business of Rs. 83.9 million by FY18. This has steadily increased to Rs. 96.4 million, Rs.145.2 million, and Rs. 187.6 million by the end of FY19, FY20 and FY21 respectively. Boosted by the incremental revenues from new projects, the company is likely to sustain moderate levels of PAT during FY22 as well, hence maintaining a steady accretion of profits to reserves, which is likely to translate into a steady growth in the company's network.

About the Company

CCS Nepal, incorporated on June 07, 2021 as a private limited company, is a 100% subsidiary of China Communications Services International Limited, which is a wholly owned subsidiary of China Communication Services Corporation Limited. CCS Nepal provides comprehensive network construction services including communications network consultation, planning, design, engineering, construction and supervision.

Financial Performance

(Rs. Million)

For the Year Ended Mid-July	2020	2021
	(12m, A)	(12m, A)
Income from Operations	1,606	1,366
PBILDT Margin (%)	6.30	12.19
Overall Gearing (times)	3.99	5.65
Interest Coverage (times)	2.88	1.55
Total Debt/ Gross Cash Accruals (times)	14.65	29.37

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Fund Based Limits	1,350.00	CARE-NP A4 [A Four]
Total		1,350.00	

Contact Us

Analyst Contact

Mr. Santosh Pudasaini

+977-01-4012629

santosh.pudasaini@careratingsnepal.com

Ms. Shalini Sanghai

+977-01-4012629

shalini.sanghai@careratingsnepal.com

Relationship Contact

Mr. 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.