

Baniya Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	917.96	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	7,837.10	CARE-NP A4 [A Four]	Assigned
Total Facilities	8,755.06 (Eight Thousand Seven Hundred Fifty Five Million and Sixty Thousand Only)		

Details of instruments/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 Baniya Nirman Sewa Private Limited (BNS).

Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BNS are constrained by its leveraged capital structure with fluctuating scale of operations and low order book position with short term revenue visibility. The ratings are also constrained by the tender based nature of operations in highly competitive construction industry, BNS' exposure to volatile interest rates and risk of delay in project execution.

The ratings, however, derive strength from experienced promoters & established track record of operations, moderate profitability margins, escalation clause in majority of the contracts and moderate counter party risk.

Going forward, the ability of the company to successfully execute projects in time and recover contract proceeds and to profitably scale up the business while improving its capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Fluctuating scale of operations and leveraged capital structure

Company's total operating income has been fluctuating over the past three years (FY19-FY21; FY refers to the twelve-month period ended mid-July 2021). TOI has registered a decline on year-on-year basis in FY20 and registers a growth in FY21. BNS' total operating income (TOI) grew 128% year-on-year to Rs. 2,262 Mn during FY21 boosted by execution of projects after being impacted by the covid-19 pandemic during FY20 when total operating income had declined 27% year-on-year.

The capital structure of BNS was leveraged with overall gearing ratio (including mobilization advance) of 4.90x at the end of FY21 which improved marginally from 4.99x at the end of FY20. Total debt of the company, which mainly comprises of hire purchase loans, mobilization advance (backed by bank guarantee) & working capital borrowings, increased in FY21 to Rs. 2,190 Mn from Rs. 1,876 Mn at the end of FY20 on account of higher reliance on working capital loan to finance increased working capital requirements and additional mobilization advance being received to finance the increased scale of operations. Also, total outside liability to total net worth and total debt to gross cash accruals remained high at 6.30x and 9.45x respectively at the end of FY21 (6.21x and 10.62x, respectively, at the end of FY20). However, the interest coverage was moderate at 2.16x in FY21 as compared to 1.84x in FY20.

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

Tender based operations in highly competitive construction industry

BNS majorly undertakes government projects, 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 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 company has to participate in the tenders floated by various government agencies which can be lengthy at times. Moreover, the company is dependent on government spending for the total capital expenditure presented in the union budget every year.

Low order book position with short-term revenue visibility

As on mid-March 2022, the unexecuted order of the company stood at Rs. 1,888 Mn which is approximately 0.83 times of its operating income for FY21, thereby giving short term revenue visibility. The scale of operations, after completion of the projects at hand, remains unpredictable and would depend on the company's ability to successfully bid for newer projects when they become available.

Risk of delay in project execution

BNS'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, BNS has relied on the experience of its management team with strong project execution skills which has helped the company mitigate this risk to some extent.

Key Rating Strengths**Long track record of operations and experienced promoters in the related fields**

BNS has a long track record of operations of more than 2 decades in the mining works and construction of various infrastructure projects (mainly road works, civil construction works, bridge works, irrigation works and river training works). The company is supported by experienced promoters lead by Mr. Indra Bahadur Baniya, Chairman, with more than 3 decades of experience in the construction industry. He is also the director in Baniya Suppliers Private Limited (supply of construction materials), Ganga Soap and Chemical Industries Private Limited (manufacturing soaps), Times Motors Private Limited (dealer of Isuzu vehicles). He looks after overall activities including policy & strategy making of BNS. Mr. Rishi Raj Baniya, managing director, has been involved in BNS since last 10 years and looks after various projects of the company. Board of directors are further supported by an experienced management team.

Moderate profitability

The business generation of the company is through bidding and tendering process and profitability margins directly associated with the nature of contracts executed by the company. The company undertakes contracts which are technical in nature which resulted in satisfactory PBIDLT margin. The company's PBIDLT margin was exceptionally high in FY20 and moderated in FY21 and PBIDLT margin stood at 21.32% in FY21. Furthermore, with increase in TOI, PBIDLT also increased by 24% year-on-year to Rs. 482 Mn in FY21. PAT margin of BNS increased to 3.04% in FY21 from 2.67% in FY20. Higher net profit of the company resulted in increase in gross cash accruals to Rs. 232 Mn in FY21 as compared to Rs. 177 Mn in FY20.

Moderate counter party risk

BNS' revenues are generated via construction contracts from government departments. In absolute amount, debtor (including retention deposit) outstanding at the end of FY21 increased to Rs. 388 Mn from Rs. 217 Mn at the end of FY20

on account of increase in execution of projects delayed by the pandemic. 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. Timely debtor realisation will remain critical from credit perspective and crucial for the company to maintain its liquidity position.

About the Company

Baniya Nirman Sewa Private Limited (BNS), is a Class "A" construction company in Nepal, incorporated as proprietorship firm (Baniya Nirman Sewa) on August 19, 1998 and later converted to private limited company on July 29, 2015 with registered office in Hetauda, Nepal. The company is mainly involved in mining works and constructing various type of projects which includes road construction, civil construction, bridge works, irrigation works and river training works. In addition to doing projects independently, BNS also enters into joint-ventures 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,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	1,363	992	2,262
PBILDT Margin (%)	27.28	39.27	21.32
Overall Gearing (times)	7.84	4.93	4.77
Interest Coverage (times)	2.28	1.84	2.16
Current Ratio (times)	1.42	1.07	1.20
Total Debt/ Gross Cash Accruals (times)	6.85	10.62	9.45

A: Audited

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 Loan	917.96	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	1,685.70	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	6,151.40	CARE-NP A4 [A Four]
Total		8,755.06	

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About CARE Ratings Nepal Limited:

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