

A. One Builders Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	43.39 (increased from 17.61)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	183.80 (decreased from 203.80)	CARE-NP A4 [A Four]	Reaffirmed
Long Term/Short Term Bank Facilities	702.88 (increased from 668.59)	CARE-NP BB/A4 [Double B/A Four]	Reaffirmed
Total Facilities	930.07		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of A. One Builders Private Limited (AOBP).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AOBP continue to remain constrained by its moderate track record and scale of operations, higher counter party risk, leveraged capital structure with moderate debt service coverage indicators and below average financial profile marked by decline in revenue and net profitability during FY21 (Audited, refers to the twelve-month period ended mid-July 2021). The ratings also factor in highly competitive construction industry coupled with tender based nature of operations and risk of delay in project execution.

The ratings, however, continue to derive strength from experienced promoter in construction field, moderate though concentrated order book position and escalation clause in majority of the contracts.

Going forward, the ability of the company to execute projects and recover contract proceeds in a timely manner leading to sustained revenue growth while maintaining profitability margins with improvement in its overall financial risk profile will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Moderate track record and scale of operations with low net worth base

AOBP has a track record of around seven years in construction of building works (majorly), airport works and road works either through its joint-venture (JV) entities and sub-contract or individually. 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 at the end of FY21, albeit increased from Rs. 20 Mn at the end of FY20. However, the experience of the promoters in the construction industry partially offsets this risk. 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 is critical from analytical perspective.

Below average financial risk profile marked by decline in revenue and net profitability and leveraged capital structure in FY21

AOBP's total operating income decreased by ~19% in FY21 to Rs. 446 Mn from Rs. 551 Mn in FY20 primarily on account of lower execution of the order book amid the lingering impact of the covid-19 pandemic. Additionally, revenue in FY20 was relatively higher due to execution of runway projects of Tribhuvan International Airport (TIA) which were received before Covid-19. Despite lower revenue, PBILDT margin, however, increased to 8.30% during FY21 from 6.94% during

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

FY20 aided by execution of more profitable orders as the operating margins are directly associated with technical aspect and nature of the contract executed. However, in absolute terms, PBILDT stood modest at Rs. 37 Mn (FY20: Rs. 38 Mn). Consequently, the company reported net loss of Rs. 5 Mn during FY21, impacted mainly by higher interest cost during FY21 amid increased debt levels.

The capital structure of AOBP is leveraged marked with overall gearing ratio (including mobilization advance) of 4.17x (FY20: 2.44x). The gearing ratio deteriorated at the end of FY21 mainly on account of increase in short term loans to finance increased working capital requirements. Total Outside Liabilities/ Tangible Net-worth (TOL/TNW) of the company also deteriorated to 6.36x in FY21 from 4.47x in FY20 and Total debt/ Gross Cash Accruals deteriorated to 23.37x during FY21 from 3.48x during FY20 on account of increased debt levels coupled with lower profitability amid declined income. Similarly, interest coverage ratio deteriorated to 2.33x in FY21 from 7.97x in FY20 mainly on account of increase in interest expenses due to increase in borrowings of the company. Profitability has remained quite volatile in the last three years on account of fluctuating scale of operations. The ability of the company to stabilize operations leading to a more stable net profitability profile will be crucial from credit perspective.

High counter party risk

Revenue of AOBP is generated via execution of contracts of private entities and also contracts of government departments on subcontract basis. Majority of the contracts of the company are from private parties which stood at ~87% of the outstanding order value. This makes the company susceptible to adverse change in financial risk profile and liquidity position of its customers. Average collection period increased to 96 days in FY21 from 32 days in FY20, primarily due to increased receivables from JVs for the work done on subcontract basis. Furthermore, in construction business, as work done by the company needs to be verified by the consultants/ engineers beforehand in order to raise the bill to the concerned client, collection period generally remains on the higher side.

Risk of delay in project execution

AOBP'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, AOBP has relied on the experience of its management team with strong project execution skills which has enabled the company to build satisfactory standing in the industry as indicated by the repeat orders awarded by its clients.

Highly competitive construction industry coupled with tender based nature of operations

The company receives its work orders from government departments and also from private parties. All government contracts are tender-based wherein the company has to quote the bid and hence it has to face the risk of successful bidding for the same, which again comes with the risk of quoting a low price to sustain competition. Also, the promoter's reasonable industry experience in related field mitigates risk of competition to some extent. Further, the business also remains dependent on stability in government policies and fiscal position of the government. Furthermore, the company is also susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. Also, there are numerous fragmented and unorganized players operating in this industry which makes the civil construction space highly competitive and the ability of AOBP to sustain its profitability margins and growth in future remain crucial.

Key Rating Strengths

Experienced promoters in the related fields

AOBP is promoted by Mr. Bhakta Bahadur Lama, Chairman, who has been leading the company since its inception from August 2015. He manages overall projects executed by the company and business development of the company. The

promoters of the company have considerable experience in construction business mainly in airport works on individual level and through AOBP's projects. BOD is further supported by an experienced team across various functions/ departments.

Moderate though concentrated order book position with mid-term revenue visibility

As on April 13, 2022, the unexecuted orders in hand of the company was Rs. 2,815 Mn which is ~6.31x of its operating income for FY21, providing mid-term revenue visibility. The order book is primarily concentrated towards building works (~97%) and others include airport works such as international parking bay and building works from private parties or by entering into JVs. Timely completion of the projects would be critical for the business prospects of the company and has a direct bearing on the margins to be attained.

Escalation clause in majority of the contracts

The company has inbuilt price escalation clauses in majority of contracts (both government and private 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 raw material prices to its customers. Ability of the company to pass on increased price burden to the customers in a timely manner is critical for maintaining a stable profitability profile.

About the Company

A. One Builders was incorporated on August 06, 2015 as a sole proprietorship firm which was later converted into private limited company as A. One Builders Private Limited (AOBP) on November 23, 2018. It is a Class-D construction company of Nepal with registered office based in Kathmandu, Nepal. In addition to doing projects independently, AOBP also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

(Rs. Million)

For the Period	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	342	551	446
PBILDT Margin (%)	4.18	6.94	8.30
Overall Gearing (times)	2.44	2.44	4.17
Total Outstanding Liabilities/Tangible Net worth (times)	4.68	4.47	6.36
Interest Coverage (times)	27.23	7.97	2.33
Current Ratio (times)	2.01	0.84	1.26
Total Debt/Gross Cash Accruals (times)	6.44	3.48	23.37

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	43.39	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	183.80	CARE-NP A4 [A Four]
Long Term/Short Term Bank Facilities	Non Fund Based Limits	702.88	CARE-NP BB/A4 [Double B/A Four]
Total		930.07	

Contact Us

Analyst Contact

Ms. Anusha Thapa

+977-01-4012628

anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012629

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

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