

### Ashish Nirman Sewa Private Limited

#### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	485.75	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	862.50	CARE-NP A4+ [A Four Plus]	Reaffirmed
Long Term/Short Term Bank Facilities	9,070.00	CARE-NP BB+/ A4+ [Double B Plus/ A Four Plus]	Reaffirmed
<b>Total</b>	<b>10,418.25</b>		

*Details of Facilities/Instruments to be rated 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+' to the short-term bank facilities of Ashish Nirman Sewa Private Limited (ANS).

#### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of ANS continues to factor in moderate financial performance in FY21 (audited, refers to twelve-month period ended mid-July 2021) marked by low profitability despite rebound in total operating income coupled with elongated collection period. The ratings are also constrained by the company's presence in highly competitive construction industry with tender based nature of operations, planned debt funded capital expenditure, risk of delay in project execution and exposure to volatile interest rates.

The ratings, however, continue to derive strength from ANS' long track record of operations, experienced promoters in the related fields and moderately leveraged capital structure with moderate debt service coverage indicators of the company. The ratings also factor in reasonable order book position giving mid-term revenue visibility, moderate counter party risk and escalation clause in majority of the contracts.

*Going forward, the ability of the company to timely execute the projects leading to sustained growth in operations and profitability while maintaining its order book and manage its working capital effectively considering high funding requirement to support growth will be the key rating sensitivities.*

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### Moderate financial performance marked by volatile income and profitability over FY21-FY22

During FY21, ANS's total operating income increased significantly by 74.75% year on year to Rs. 2,061 Mn aided by execution of new contracts. However, profitability margins of the company, which are directly associated with technical aspect of the contract executed, declined as indicated by PBILDT margin of 13.94% in FY21, which was down from 22.28% in FY20. Profitability in FY20 was relatively better aided by execution of few contracts having better margins. Furthermore, the company incurred additional repair and maintenance expenses in FY21 which also led to lower PBILDT margin in FY21. However, absolute PBILDT increased by ~9.36% to Rs. 287 Mn and PAT increased by 49.75% to Rs. 86 Mn in FY21 with margin of 4.17% aided by increased scale of operations. However, during FY22 (Provisional, refers to the twelve-month period ended mid-July, 2022) the company achieved Total Operating Income (TOI) of Rs. 1,150 Mn compared to Rs. 2,061 Mn in FY21. Lower TOI in FY22 was mainly on account of unbilled revenue of around Rs. 550 Mn and company's inability to start construction contract worth Rs. 300 Mn amid agitation from locals.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**Elongated Collection Period**

The operations of the company are working capital intensive in nature as reflected from modest current ratio of 1.03x at the end of FY21. Payment is normally received within 45-60 days from the date of billing. ANS avails, an average, credit period of around 120-150 days for procurement of inputs like cement, metal and fuel etc. The higher credit period from suppliers resulted into low operating cycle of 38 days in FY21. Debtor realization period stood high at 93 days in FY21 which majorly include amount receivable from JVs associates with one JV accounting for 82% of total receivables. However, the counter party risk is moderated by the fact that majority of the construction contracts are obtained from government departments.

**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.

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. Government of Nepal (GoN) has put certain restrictions on the contractors to participate in tenders such as prohibiting foreign companies to participate in tenders having value less than Rs. 3,000 Mn, which augurs well for domestic players. Furthermore, the GoN has also placed a cap on total active projects of construction companies at five, which could limit growth prospects. Also, there are numerous fragmented and unorganized players operating in this industry which makes the civil construction space highly competitive and the ability of ANS to sustain its profitability margins and growth in future remain crucial.

**Risk of delay in project execution**

ANS'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, ANS 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.

**Exposure to volatile interest rate risk**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

**Key Rating strengths****Experienced promoters and established track record of operations**

The company has long track record of operations of more than 25 years in the construction of various infrastructure projects all over Nepal. ANS is promoted by Mr. Rishi Kesh Gauli and his family members, holding total shares of the company. Mr. Rishi Kesh Gauli, managing director, has experience of over 35 years in construction sector mainly through his association with company. He looks after overall affairs of the company. Mr. Nirman Gauli, Director, has been involved in ANS since last 10 years and looks after procurement and related operations of the company. The management team is further supported by an experienced professionals across various functions/ departments.

### Moderate order book position with mid-term revenue visibility

As on July 18, 2022, the unexecuted orders in hand of the company stood at Rs. 6,474 Mn (share of ANS only), which is around revenue is around 3.14 x of income from contract of FY21 which provides moderate medium term revenue visibility. The order book of the company reflects medium term revenue visibility for the next 3 to 4 years. The order book of the company is mainly concentrated in building works, road construction and other civil works accounting for 83% of unexecuted orders. 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.

### Moderately leveraged capital structure and adequate debt service coverage indicators of the company

Debt-equity ratio and overall gearing ratio (including mobilization advance) of the company stood moderate 1.08x and overall gearing ratio and 2.30x, respectively at the end of FY21 on standalone basis (vis-à-vis 1.53x and 2.26x respectively at the end of FY20). The overall gearing ratio moderated slightly at the end of FY21 in comparison to FY20 on account of higher working capital utilization and additional term loan taken to fund the increased operations during FY21. Debt service coverage indicators as indicated by Interest coverage ratio of the company was adequate at 3.88x in FY21. Similarly, total debt/ GCA of the company was high at 5.09x at the end of FY21, increasing from 4.12x at the end of FY20 mainly due to increased debt levels.

### Escalation clause in majority of the contracts

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 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

Ashish Nirman Sewa Private Limited is a Class-A construction company of Nepal, incorporated on August 26, 1998. The company has succeeded an erstwhile proprietorship firm M/s Ashish Nirman Sewa under the same management which was in operation since 1993. The company is engaged in construction and infrastructure sector projects independently as well as through Joint Ventures (JVs).

Brief financials of ANS (Standalone) for last three years ending FY21 are given below:

(in Rs. Million)

Particulars	FY19	FY20	FY21
	Audited	Audited	Audited
Income from Operations	1,471	1,180	2,061
PBILDT / Total Income	16.33	22.28	13.94
Overall Gearing	2.27	2.26	2.30
Total Outside Liabilities/ Tangible Net-Worth (times)	5.12	4.04	3.99
Interest coverage (times)	5.05	3.81	3.88
Total Debt/GCA	3.79	4.12	5.09

### Annexure-1 Details of Facilities/Instruments to be rated

Name of Instrument	Type of Facility	Amount(Rs in Million)	Rating
Long Term Bank Facilities	Term Loan	485.75	CARE-NP BB+
Short Term Bank Facilities	Working Capital Loan	862.50	CARE-NP A4+
Long Term/Short Term Bank Facilities	Non-Fund Based Loans	9,070.00	CARE-NP BB+/A4+
<b>Total</b>		<b>10,418.25</b>	

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