

Mountain Infra Company Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	70.54	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	90.00	CARE-NP A4+ [A Four Plus]	Assigned
Long Term/ Short Term Bank Facilities	2,289.46	CARE-NP BB/ A4+ [Double B/ A Four Plus]	Assigned
Total Facilities	2,450.00 (Two Thousand Four Hundred Fifty Million 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 Mountain Infra Company Limited (MIC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MIC are constrained by its fluctuating scale of operations in last three FY's (FY19-FY21; FY refers to the twelve-month period ended mid-July) with concentrated project portfolio, leveraged capital structure, tender based nature of operations in the highly competitive construction industry, exposure to volatile interest rates and regulatory risk and risk of delay in project execution.

The ratings, however, derive strength from experienced promoters and established track record of operations, moderate order book position providing mid-term revenue visibility. The ratings also factor in moderate operating cycle, moderate counter party risk and escalation clause in majority of contracts.

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Below average financial risk profile as reflected from Fluctuating scale of operations and leveraged capital structure

MIC has a fluctuating scale of operations over the past three years (FY19-FY21) amid lingering impact of the pandemic. MIC's TOI grew ~4% year-on-year to Rs. 404 Mn during FY21 boosted by execution of projects after being impacted by the pandemic during FY20 when total operating income had declined ~30% year-on-year. The business generation of the company is through bidding and tendering process and profitability margins are directly associated with the nature of contracts executed by the company. The PBILDT margin remained rangebound in between 7%-10% during the said period. PAT margin of MIC increased to 3.23% in FY21 from 2.17% in FY20 aided by higher non-operating income during the year.

Capital structure of the company stood leveraged on account of higher long-term debts availed by MIC for funding the purchase of construction machineries and the same has been reflected from high overall gearing of above 3.50x on the balance sheet date of last 2 financial years (FY20 & FY21). Furthermore, Total Outside Liabilities (TOL)/ TNW of the company stood very high and deteriorated to 13.51x in FY21 from 12.40x in FY20.

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

Concentrated though moderate order book

As on June 30, 2022, the unexecuted orders in hand of the company stood at Rs. 841 Mn, which is 2.08x of the income from contract of FY21, providing moderate revenue visibility. The order book is primarily concentrated towards building projects (~62%) and others include road, river training and tunnel projects by entering into JVs. Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

Tender based nature of operations in highly competitive construction industry

Majority of the MIC's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, MIC's business is vulnerable to under bidding at a relatively low cost in order to secure the projects, in the highly competitive construction industry. Furthermore, the business also remains dependent on sustained capital expenditure by the government towards construction projects, overall stability in government policies and fiscal position of the government.

Exposure to volatile interest rate

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.

Risk of delay in project execution

Given the nature of projects awarded, MIC is exposed to inherent risk in terms of delays in certain projects undertaken by the company due to delay in procedural approvals and clearance of project sites, etc, thus exposing the company towards the risk of delay in projects resulting in a delay in the realization of revenue growth. Furthermore, the company ability to execute a project in timely manner would be led by its own operational efficiency and timely stage payments received from clients.

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

MIC is promoted by Mr. Achyut Prasad Bhandari, Managing Director, who has been leading the company since its inception in December 1992. Mr. Bhandari has experience of more than two decades in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. He is responsible for execution of projects undertaken by the company. Mr. Himal Aryal and Ms. Januka Aryal, Directors, has considerable experience in construction sector and look after overall operations of the company. Furthermore, the board is supported by an experienced team across various functions. The company has long track record of operations of more than two decades in the construction of various infrastructure projects all over Nepal.

Moderate operating cycle

The working capital cycle of MIC appears to be moderate, primarily because the company receives a high payable period of around 60-90 days from its suppliers. As a result, the fund based working capital requirement for the company remains on the moderate side, which resulted in average utilization of around 21% of its sanctioned working capital borrowings during the last 12 months period ended mid-June 2022.

MIC's inventory holding period was around 103 days in FY21 with major inventory being construction materials such as cement and rods. One of the major factors that resulted in high inventory was piling up of construction materials as the company has to maintain inventory at various sites for smooth execution of project works. The funds are released only after the work certification process is completed and finalization of the bill is done. Customer base includes government departments / bodies; therefore, the certification and realization of the bill generally takes the period of around two months. There is usually a delay in the recovery of debtors, and at times, the same exceeds more than three months. Consequently, average collection period of the company was also moderate at around 70 days in last 2 financial years (FY20 & FY21).

Interest coverage ratio of the company was moderate at 2.54x in FY21 which improved from 2.40x in FY20, aided by slightly decreased interest expense amid lower rates. However, amid higher debt levels, Total debt/ GCA of the company remained at similar level at 6.47x in FY21 as compared to 6.43x in FY20, with impact of increased debt offset by increased GCA.

Moderate counter party risk

Revenue of MIC is generated via contracts from both government departments and private parties. The order book is primarily concentrated towards building projects from government departments. Counter party risk remains moderate given the projects are from government departments, which have been making timely payment to the company in the past.

About the Company

Mountain Infra Company Private Limited was incorporated on December 15, 1992 as a private limited company which was later converted into public limited company as Mountain Infra Company Limited (MIC) on May 13, 2019. It is a Class "A" construction company of Nepal with registered office based in Kathmandu, Nepal. The company is involved in civil works of hydropower projects, building, roads and river training projects. In addition to doing projects independently, MIC also enters into Joint Ventures (JV) 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	554	388	404
PBILDT Margin (%)	6.96	9.57	8.82
Overall Gearing (times)	7.77	3.55	3.63
Total Outstanding Liabilities/Tangible Net worth (times)	13.97	12.40	13.51
Interest Coverage (times)	4.35	2.40	2.54
Current Ratio (times)	1.71	0.92	0.98
Total Debt/Gross Cash Accruals (times)	9.85	6.43	6.47

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	70.54	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	90.00	CARE-NP A4+ [A Four Plus]
Long Term/ Short Term Bank Facilities	Non Fund Based Limits	2,289.46	CARE-NP BB/ A4+ [Double B/ A Four Plus]
Total		2,450.00	

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About CARE Ratings Nepal Limited:

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