

Samanantar Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	22.12	CARE-NP BBB [Triple B]	Reaffirmed
Short Term Bank Facilities	11,416.00	CARE-NP A3+ [A Three Plus]	Reaffirmed
Total Facilities	11,438.12 (Eleven Thousand Four Hundred Thirty-Eight Million and One Hundred Twenty Thousand Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB' assigned to the long-term bank facilities and 'CARE-NP A3+' assigned to the short-term bank facilities of Samanantar Nirman Sewa Private Limited (SNSPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the bank facilities of SNSPL continues to derive strength from established track record of operations along with experienced promoters, improving financial risk profile marked by increased Total Operating Income (TOI) and improved PAT margin coupled with comfortable capital structure. The ratings also factor healthy liquidity profile of the company, presence of backward integration for construction materials, moderate counter party risk, escalation clause in majority of the contracts, and moderate operating cycle of the company.

The ratings, however, remain constrained by SNSPL's moderate and concentrated order book position, its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings also factor in exposure to volatile interest rates and government regulations and risk of delay in project execution.

Going forward, the ability of the company to profitably scale up its operations amidst high level of competition and manage its working capital requirements to support growth will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters and established track record of operations

SNSPL is promoted by Mr. Achyut Prasad Kharel, Chairman, who has been leading the company since its inception in September 1993. Mr. Kharel 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 specialized in marketing with experience in advisory/consultancy services. Mr. Niroj Thapailya, Managing Director and Mr. Keshab Prasad Kharel, has considerable experience in construction sector. Furthermore, the board is supported by an experienced team across various functions. The company has long track record of operations of almost three decades in the construction of various infrastructure projects all over Nepal. Also, the company has a track record of completing the project in a time bound manner and received awards for completing the construction projects before the deadline.

Improving financial risk profile marked by improved TOI and PAT margin and comfortable capital structure

SNSPL's TOI grew ~7% year-on-year to Rs. 3,139 Mn during FY21 (Audited, refers to the twelve-month period ended mid-July 2021) boosted by execution of projects after being impacted by the pandemic during FY20 when total operating income had declined ~2%. The business generation of the company is through bidding and tendering process and

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

profitability margins are directly associated with the nature of contracts executed by the company. The PBILDT margin of the company remained rangebound in between 8%-9% during the past 3 FYs (FY19-FY21), albeit declined by 76 bps to 7.85% in FY21 amid increased input prices and higher execution of low margin projects. However, PAT margin of SNSPL increased to 4.67% in FY21 from 4.57% in FY20 aided by lower interest expenses aided by lower interest rates coupled with scheduled repayment of term loans.

Overall gearing ratio (excluding mobilization advances) of the company stood comfortable at 0.06x as on mid-July 2021, as compared to 0.17x as on mid-July 2020. However, the adjusted overall gearing ratio (including mobilization advance, normally interest free) stood high at 4.84x as on mid-July 2020 and slightly improved from 5.28x as on mid-July 2020. Interest coverage ratio stood healthy at around 30.91 times in FY21; however, total debt to GCA stood high at 10.01x in FY21 on account of high mobilization advances. Furthermore, Total Outside Liabilities (TOL)/ TNW of the company stood high at 7.52x in FY21, which improved from 9.21x in FY20. During FY21, SNSPL declared dividend aggregating to Rs. 24 Mn.

Moderate operating cycle and healthy liquidity profile of the company

The company has comfortable liquidity position on account of surplus funds available in the form of advance mobilization money (interest free) and significant amount invested in freely traded listed shares. Generally, the company receives maximum 10% of the contract amount as advance mobilization money, which is interest free. Accordingly, the average working capital utilization of the company stands low. The average utilization of around 4% of its sanctioned working capital borrowings during the twelve-month period ended mid-May 2022. Also given the inherent cyclicity in the construction industry, lower reliance on external financing remains a positive.

The working capital cycle of SNSPL is 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 lower side with almost negligible utilization in 8 months in the last 12 months ended mid-May 2022. SNSPL's inventory holding period was around 18 days in FY21 with major inventory being construction materials such as cement and rods as the company is required 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, however, high at around 165 days in FY21. Timely realization of debtors is crucial for the company to maintain its liquidity position.

Presence of backward integration for construction materials through group associates

The group associates of the company namely Ashapuri Roda Dhunga Suppliers Private Limited, Samanantar Roda Dhunga Private Limited, Samanantar Concrete Udyog Private Limited, Samanantar Kripa Shree Private Limited and Sandharbhik Nirman Sewa Private Limited are involved in production of construction materials such as ready-mix concrete (RMC), stone and sand aggregate, sub-base, base course and asphalt etc. as well as transportation activities to ensure continuous material flow from off-site chains to the construction site. Since group associates are involved in primary raw material requirement of the company which benefits it in terms of synergy derived from better inventory management, timely transportation and supply chain integration.

Moderate counter party risk and escalation clause in majority of the contracts

Revenue of SNSPL is generated via contracts majorly from government departments. 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.

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 labour 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 and maintain profitability margins is critical from credit perspective.

Key Rating Weaknesses**Concentrated order book**

As on July 11, 2022, the unexecuted orders at hand of the company stood at Rs. 3,413 Mn, which is 1.11x of the TOI of FY21, providing short term revenue visibility. The order book is primarily concentrated towards building projects (~89%) and others include road and water management projects by entering into JVs. One building project i.e. construction of supreme court building complex, accounts for ~44% of total order book position. Having a concentrated order book on a single project links the company's performance to the same and any delays in execution of one such project can materially impact the company's financial health. 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 SNSPL's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, SNSPL'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. 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.

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, SNSPL 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.

Analytical approach:

CRNL has analysed SNSPL's credit profile by considering the consolidated financial statements of the company comprising SNSPL and its joint venture entities related to the construction works.

About the Company

SNSPL is a Class "A" construction company of Nepal, incorporated on September 06, 2009 with its registered office based in Kathmandu, Nepal. The company is involved in buildings, roads and water management projects etc. In addition to doing projects independently, SNSPL 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	2,998	2,932	3,139
PBILDT Margin (%)	8.31	8.61	7.85
Overall Gearing (times)	5.23	5.28	4.84
Total Outstanding Liabilities/Tangible Net worth (times)	8.49	9.21	7.52
Interest Coverage (times)	7.56	21.79	30.91
Current Ratio (times)	2.03	2.03	2.35
Total Debt/Gross Cash Accruals (times)	6.77	8.71	10.01

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	22.12	CARE-NP BBB [Triple B]
Short Term Bank Facilities	Fund Based Limits	60.00	CARE-NP A3+ [A Three Plus]
Short Term Bank Facilities	Non Fund Based Limits	11,356	CARE-NP A3+ [A Three Plus]
Total		11,438.12	

Contact Us

Analyst Contact

Mr. Girish Bhatta
+977-01-4012630
girish.bhatta@careratingsnepal.com

Mr. Santosh Pudasaini
+977-01-4012629
pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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