

## Swaminarayan Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	118.73 (increased from 100.00)	<b>CARE-NP BB</b> <b>[Double B]</b>	Reaffirmed
Short Term Bank Facilities	171.27 (increased from 150.00)	<b>CARE-NP A4</b> <b>[A Four]</b>	Reaffirmed
Long Term/Short Term Bank Facilities	2,710.00 (decreased from 2,750.00)	<b>CARE-NP BB/A4</b> <b>[Double B/A Four]</b>	Reaffirmed
<b>Total Facilities</b>	<b>3,000.00</b>		

*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 Swaminarayan Nirman Sewa Private Limited (SNSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNSPL continue to remain constrained by its modest scale of operation, working capital intensive nature of business and leveraged capital structure. The ratings also factor in highly competitive construction industry coupled with tender based nature of operations, planned debt funded capital expenditure and risk of delay in project execution.

The ratings, however, continue to derive strength from experienced promoter and moderate track record of execution of various construction works, improved financial performance backed by execution of contracts in FY21 (Audited, refers to the twelve-month period ended mid-July 2021), moderate order book position though geographically concentrated, 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

##### Modest scale of operations

The scale of operations remained modest marked by total operating income (TOI) of Rs. 500 Mn in FY21. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low net-worth of Rs 43 Mn at the end of FY21, albeit increased from Rs. 29 Mn at the end of FY20. The modest scale of operations in a competitive industry limits the pricing power and benefits of economies of scale. Though, the risk is partially mitigated by the fact that the scale of operation is growing steadily, notwithstanding the impact of the covid-19 pandemic in FY20.

##### Working capital intensive nature of business

The operations of the company are working capital intensive in nature. SNSPL primarily works with the government departments and payments for the contracts are received generally within a month. SNSPL maintained construction materials as an inventory for around one month. The credit period extended by suppliers of raw materials is around 3 to 4 months on the basis of negotiation power of the company. The higher credit period from suppliers resulted into negative operating cycle in FY21. Retention money is deducted by the client from running bills which will get refunded to the

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

contractor after certain period, usually a year, on successful execution of contracted work. These factors lead to increased reliance of the company on borrowings to meet its working capital requirements. The average utilization of SNSPL's working capital limits against drawing power was high at around 95% during the twelvemonth period ended mid-June 2022.

### **Leveraged capital structure with moderate debt service coverage indicators**

The capital structure of SNSPL stood leveraged with overall gearing ratio (including mobilization advance) of 2.97x at the end of FY21 which deteriorated from 2.37 at the end of FY20 due to increased debt levels amid growing operations. 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. 127 Mn from Rs. 68 Mn at the end of FY20. Also, total debt to gross cash accruals increased to 4.14x at the end of FY21 from 2.99x at the end of FY20. However, interest coverage ratio stood moderate at 6.06x during FY21 (FY20: 7.72x).

### **Highly competitive construction industry coupled with tender based nature of operations**

SNSPL 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.

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.

### **Recurring debt funded capital expenditure**

The company has been making regular investments to expand its execution capabilities in the past and is expected to continue the trend in future also. The investment in equipment/ machineries was Rs. 46 Mn in FY21. The purchase of fixed assets was mainly funded through bank finance. It is expected that the company would take additional borrowings for purchase of equipment/machineries to support the growing plans. Debt funded capex and its impact on the capital structure will remain a key monitorable aspect.

### **Risk of delay in project execution**

SNSPL'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, SNSPL 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.

### **Key Rating Strengths**

#### **Experienced promoters and moderate track record of operation**

SNSPL is promoted by Mr. Santosh Kumar Basnet, Managing Director, who has been leading the company since its inception and has long experience of over two decades in the field of construction business. He manages overall affairs of the company with the support of experienced team across various functions. The company has moderate track record of

executing projects related to civil construction, irrigation works, canals, embankment works etc. BOD is further supported by an experienced team across various functions/ departments.

### Improved financial performance backed by execution of contracts in FY21

SNSPL's total operating income increased by 30% to Rs. 500 Mn in FY21 from Rs. 386 Mn in FY20 majorly on account of execution of final stage projects. 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 during the financial year. Attributed to the same, PBILDT margin has remained range bound at around 8% in last 3 FYs (FY19-FY21).

PBILDT of the company increased to Rs. 42 Mn in FY21 from 30 Mn in FY20 along with increase in PBILDT margin to 8.36% in FY21 from 7.74% in FY20. Backed by higher sales, gross cash accruals of SNSPL increased to Rs.31 Mn in FY21 from Rs. 23 Mn in FY20. Also, PAT margin of the company increased to 2.60% in FY21 from 2.44% in FY20. The company's ability to sustain the growth momentum supported by timely execution of the projects at hand will be critical for its business growth going forward.

### Moderate order book position though geographically concentrated

As on April 13, 2022, the unexecuted orders in hand of the company stood at Rs. 1,131 Mn which is ~2.26x of its operating income for FY21, providing mid-term revenue visibility. The current order book is diversified into irrigation and water supply works, buildings, bridges, parks and road works. Majority of the works are for irrigation and water supply projects ~ 73% from various government authorities and others include construction works such as construction of bridge, building and road works by entering into JVs. Timely completion of the projects has a direct bearing on the margins to be attained. However, the entire operations of the company and its order book are concentrated mainly in the eastern regions of Nepal. Attributed to same, the company is also exposed to geographical concentration risk like natural disasters, regional execution challenges related to local disturbances towards execution of contract etc.

### 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

Swaminarayan Nirman Sewa Private Limited (SNSPL) was incorporated on September 02, 2013 as a Class-A construction company of Nepal with registered office based in Sunsari, Nepal. In addition to doing projects independently, SNSPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financial performance of the company during last 3 years is given below:

### Financial Performance

For the Period	(Rs. Million)		
	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	459	386	500
PBILDT Margin (%)	7.16	7.74	8.36
Overall Gearing (times)	4.08	2.44	2.60
Total Outstanding Liabilities/Tangible Net worth (times)	5.59	5.05	9.43
Interest Coverage (times)	11.68	7.72	6.06
Current Ratio (times)	1.56	1.27	1.05
Total Debt/Gross Cash Accruals (times)	3.59	2.99	4.14

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	118.73	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	171.27	CARE-NP A4 [A Four]
Long Term/Short Term Bank Facilities	Non Fund Based Limits	2,710.00	CARE-NP BB/A4 [Double B/A Four]
Total		3,000.00	

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