

## Aashirbad Nirman Sewa Private Limited

### Ratings

Facility	Amount (Rs. in Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	117.18 (Decreased from 145.00)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities- Working Capital Loan	29.82 (Increased from 5.00)	CARE-NP A4 [A Four]	Reaffirmed
Long Term/Short Term Bank Facilities- Non-Funded Loan	1,653.00 (Increased from 1,500.00)	CARE-NP BB/A4 [Double B/ A Four]	Reaffirmed
<b>Total Facilities</b>	<b>1,800.00</b> <b>(Increased from 1,650.00)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long term bank facilities and the rating of 'CARE-NP A4' assigned to the short term bank facilities of Aashirbad Nirman Sewa Private Limited (ANS).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANS remain constrained by its small scale of operations with geographically concentrated order book position, tender based nature of operations, planned debt funded capital expenditure, exposure to volatile interest rates, risk of delay in project execution and working capital intensive nature of business.

The ratings, however, continue to derive strength from ANS's experienced promoters and moderate track record of operations, moderate order book position and counter party risk, and escalation clause in majority of the contracts.

*Going forward, the ability of the company to profitably scale up its operations while successfully executing the projects on time and managing its working capital requirements to support growth will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Small scale of operations with geographically concentrated order book position

The total operating income of ANS stood relatively smaller at Rs. 220 Mn in FY22 (Unaudited, refers to the twelve-month period ended mid-July 2022), albeit grew at around 11.67% in FY22 over FY21. 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. 30 Mn as on mid-July 2022. Small scale of operations in a competitive industry limits the pricing power and benefits derived from economies of scale.

The entire operations of the company and its order book are concentrated mainly in the eastern region of Nepal. Attributed to same, the company is also exposed to geographical concentration risk such as natural disasters, regional execution challenges related to local disturbances towards execution of contract etc.

##### Working capital intensive nature of business

The operations of the company are working capital intensive in nature, marked by moderately high average collection period. ANS's average collection period during FY22 was 88 days compared to 51 days in FY21. Average inventory period and average creditor period stood at 16 days and 51 days respectively in FY22. The company primarily works with the government departments and payments for the contracts are received after completion of work certification process, generally within two months. The credit period is normally around two months, which can be extended by suppliers of raw materials on the basis of negotiation power. Retention money is deducted by the client from running bills which will get refunded to the contractor

after certain period, usually 1 year, on successful execution of contracted work. These factors lead to reliance of the company on external finance to meet its working capital requirements.

#### **Planned debt funded capital expenditure**

The company has been making regular investments to expand its infrastructure facilities in the past and expected to continue in future. The investment in equipment/ machineries was Rs. 8 Mn in FY22, Rs. 18 Mn in FY21 and Rs. 65 Mn in FY20. The purchase of fixed assets was mainly funded through internal accruals, equipment loan and also infusion from promoters. The company has planned the purchase of equipment/machineries in the upcoming financial year as well. Any un-envisaged debt funded capital expenditure would impact the capital structure adversely and also deteriorate the debt coverage indicators of the company. Hence, the increase in debt levels, going forward, would remain a key rating monitorable.

#### **Tender based nature of operations in highly competitive construction industry**

Majority of the ANS's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, the company's business is vulnerable to underbidding 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, ANS 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 moderate track record of operations**

ANS is promoted by Mr. Keshar Kumar Budhathoki who has been leading the company since its inception in 2015 and has long experience of 21 years in the field of construction business. Similarly, other directors of the company have reasonable experience in construction contract business. The board is aptly supported by an experienced team across various functions.

The company has a moderate track record of operations of more than seven years in the construction of various small and large scale infrastructure projects across Nepal.

#### **Improving financial risk profile marked by stable profitability leading to improved debt service coverage ratios**

PBILDT margin of the company also remained fairly stable at around 15% over FY21-FY22. PBILDT margin had improved in FY21 on account of execution of better margins contracts.

As on mid-July 2022, overall gearing ratio of ANS has improved to 1.66x from 2.24x as on mid-July 2021 aided by repayment of term loan coupled with accretion of profits to net worth. Debt coverage indicators of the company stood moderate, marked by interest coverage ratio of 4.19x and 4.30x in the last two FYs (FY21 and FY22). Total debt to gross cash accruals (GCA) improved to 3.53x in FY22 from 4.07x in FY21. The ability of ANS to sustain its profitability margin while managing working capital requirements and maintaining debt service coverage indicators will remain key monitorable.

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

The unexecuted order book of the company as on mid- July 2022 was Rs. 1,471 Mn (share of ANS in joint ventures), which is 7.46x of the income from contract in FY21, providing moderate revenue visibility. The tenure of the orders undertaken by the company is up to 42 months. The order book is primarily concentrated towards building projects (~45%) and others include bridge works, road works, irrigation/water supply/ related works, sewage works and airport works received from various government authorities. Timely execution of the orders, however, would be critical for the business prospects of the company and has a direct bearing on its margins.

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

Revenue of ANS 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. Furthermore, 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 (employers). 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.

#### **About the Company**

Aashirbad Nirman Sewa Private Limited (ANS) was incorporated on March 3, 2015 as a Class-D construction company of Nepal with registered office based in Biratnagar, Morang, Nepal. The company is involved in construction of both small and large scale projects mainly relating to road works, building works, bridge works, irrigation works, etc. in various parts of Nepal. In addition to doing projects independently, ANS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of ANS for the past three years ended FY22 are given below:

(Rs. Million)

<b>For the year ended Mid-July</b>	<b>FY20 (Audited)</b>	<b>FY21 (Audited)</b>	<b>FY22 (Unaudited)</b>
Income from Operations	201	197	220
PBILDT Margin (%)	11.79	15.78	15.17
Overall Gearing (times) inc. mobilization advance	2.27	2.24	1.66
Total Outstanding Liabilities/ Tangible Net Worth (times)	3.03	2.91	2.25
Interest Coverage (times)	5.15	4.19	4.30
Current Ratio (times)	1.75	1.70	1.70
Total Debt/ Gross Cash Accruals (times)	4.66	4.07	3.53

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	117.18	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	29.82	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Fund Based Limit	1,653.00	CARE-NP BB/A4
<b>Total</b>		<b>1,800.00</b>	

### Contact us

#### Analyst Contact

Mr. Prashiddha Sharma Gaire

Contact No.: +977 9802335865

Email: prashiddhas@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977 9802312855

Email: pudasaini.santosh@careratingsnepal.com

#### Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

#### About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

#### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.