

## P.R. Infrastructure Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	134.37	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	85.00	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	2,280.63	CARE-NP BB/A4 [Double B/A four]	Assigned
<b>Total Facilities</b>	<b>2,500.00</b> <b>(Two Billion and Five Hundred Million only)</b>		

*Details of Facilities in Annexure 1*

Care Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long term bank facilities and the rating of 'CARE-NP A4' to the short term bank facilities of P.R. Infrastructure Private Limited (PRIPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PRIPL are constrained by the company's modest scale of operations coupled with concentrated revenue mix and modest capital base, working capital intensive nature of operations, tender based nature of operations in highly competitive construction industry, risk of delay in project execution, and exposure to volatile interest rates.

The ratings, however, derive strengths from experienced promoters in the related field and established track record in executing various construction works, moderate order book position with mid-term revenue visibility, synergies derived from presence of group associates with backward integration for construction materials and moderate counter party risk.

*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 Weaknesses

#### Modest scale of operations coupled with concentrated revenue mix and modest capital base

The financial risk profile of PRIPL is marked by its modest scale of operations with total operating income (TOI) of Rs. 505 Mn during FY21 (Audited, FY refers to the twelve-month period ended mid-July 2021), although the company's scale of operations has increased on y-o-y basis over the past four financial years (FY18-FY21). Furthermore, PRIPL had a leveraged capital structure with debt to equity ratio of 2.21x and overall gearing ratio of 3.07x (including mobilization advance) at the end of FY21. This coupled with the company's modest capital base of Rs. 65 Mn limits its ability to maintain growth along with diversification.

The company's revenue base comprises mainly of road construction works (accounting for ~97% of total outstanding order book as on mid-July 2022) received mostly from various government departments. This exposes the company to revenue concentration risk in terms of business segment. In addition, the majority of the company's operations is within the Kathmandu valley leading to geographical revenue concentration risk.

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

**Working capital intensive nature of business**

The operations of the company are working capital intensive in nature. PRIPL primarily works with various government departments and payments for the contracts are generally received only after the work certification process is completed and finalization of the bill is done. Lengthy certification process can lead to high work in progress and inventory levels. The company had inventory period of 1.5-2 months in last two financial years (FY21 and FY22). Furthermore, retention deposit is deducted by the clients from running bills which gets refunded to the contractor after some period, usually twelve months, on successful execution of the contracted work. These factors lead to reliance of the company on bank finance to meet its working capital requirements. Although PRIPL has high average payable period of around three months on account of good relationship with suppliers, over reliance on creditors for working capital management may not be sustainable over the long term. The average monthly fund-based working capital utilization for the past twelve months ended mid-July 2022 was around 69% of the sanctioned limits. Ability of the company to efficiently manage its working capital requirements is critical from credit perspective.

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

Majority of the PRIPL's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, PRIPL'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.

**Risk of delay in project execution**

Given the nature of projects awarded, PRIPL 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 further resulting a delayed realization of revenue growth. Furthermore, the company's ability to execute projects in timely manner would be led by its own operational efficiency and timely stage payments received from clients.

**Exposure to volatile interest rates**

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 in the related field and established track record in executing various construction works**

PRIPL has two members in its board of directors, led by Mr. Pancharam Maharjan, Managing Director. Mr. Maharjan has an experience of over two decades in construction business, and is also involved as promoter/director in other companies which

are involved in manufacturing of various raw materials used in construction. Ms. Laxmi Maharjan, Director, also has over fifteen years of experience in the construction sector. The board is aptly supported by an experienced team across various functions/ departments. Furthermore, the company has a moderate track record of operations of more than sixteen years in construction of various infrastructure projects.

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

As on July 15, 2022, the unexecuted orders in hand of the company stood at Rs. 1,797 Mn. The order book position reflects mid-term visibility for the next 3 years with 3.56x order book to FY21 income from contracts ratio. The order book is primarily concentrated towards road projects (~97%) with a few bridge and building 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.

### Synergies derived from group associates

Major raw materials used by the company for its construction activities are asphalt, concrete, steel rod, cement, construction aggregate etc. The group has integrated businesses under different group associates who are involved in manufacturing of construction materials required by the company to execute the projects. Group associates involved in production of construction materials benefits the company in terms of synergy derived from economies of scale, better inventory management, timely transportation, supply chain integration etc.

### Moderate counter party risk

Revenue of PRIPL is majorly generated via contracts from government departments. The order book is primarily concentrated towards water supply 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

P.R. Infrastructure Private Limited (PRIPL) is a Class "A" construction company in Nepal, incorporated on September 09, 2019, with registered office in Balkumari, Lalitpur, Nepal. The company was initially founded as proprietorship business in 2005. PRIPL is mainly involved in road construction projects, and a few bridge and building construction projects. In addition to doing projects independently, PRIPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

### Financial Performance

For the period ended/ as at mid-July	FY19 (A)	FY20 (A)	FY21 (A)
Income from operations	123	298	505
PBILDT Margin (%)	30.13	16.74	15.57
Overall Gearing (times)	0.55	2.34	3.07
Interest Coverage (times)	3.24	3.60	4.77
Current Ratio (times)	6.58	1.83	1.02
Total Debt/ Gross Cash Accruals	4.15	5.51	5.80

A: Audited

### 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	134.37	CARE-NP BB
Short Term Bank Facilities	Fund Based Limit	85.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non Fund Based Limit	2280.63	CARE-NP BB/A4
<b>Total</b>		<b>2,500.00</b>	

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