

Bidari Nirman Sewa Private Limited (Revised)

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	61.00	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	42.00	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	1,147.00	CARE-NP BB -/A4 [Double B Minus/A four]	Assigned
Total Facilities	1,250.00 (One Thousand Two Hundred and Fifty Million)		

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 Bidari Nirman Sewa Private Limited (BNSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BNSPL are constrained by its short track record of operations with low capital base limiting scope for substantial growth in operations, concentrated revenue base, and leveraged gearing levels coupled with relatively high creditors period. The ratings also factor in the 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 moderate order book position with mid-term revenue visibility, moderate liquidity profile and debt service coverage indicators, 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 timely manner, profitably scale up the operation of the company leading to sustained revenue growth while maintaining profitability margins while improving its overall financial risk profile will be key sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record of operations with low capital base

The company has a relatively short track record of around four years in the construction sector. With paid up capital of Rs. 10 Mn as on mid-July 2022, the ability of company to scale up larger sized contracts having better operating margins is constrained by its comparatively low capital base. Small scale of operation in a competitive industry could limit the pricing power and benefits derived from economic of scale. Furthermore, the promoter has limited experience in the field of construction.

Below Average financial risk profile marked leveraged gearing and relatively high creditor's period

Overall gearing ratio, including mobilization advance, stood moderate at 2.28x at the end of FY22. The overall gearing ratio had improved on the balance sheet date of FY22 from 3.05x on previous balance sheet date amid lower bank borrowings at the end of FY22, with the company's operations being funded through elevated creditors outstanding at FY22 end. Total outside liabilities/tangible net worth of the company stood at 4.68x at the end of FY22. The average creditor days had increased to 57 days in FY22 from 46 days in FY21. Consequently, debt service coverage indicators during FY22 stood at moderate levels. However, as the company starts to pay off the outstanding payables coupled with increased execution of

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

projects at hand, the company's financial burden is likely to increase going forward leading to higher borrowing requirements. Furthermore, amid a very high non-fund based exposure, the company's potential gearing remained very high at around 27x at the end of FY22.

Revenue base concentrated towards water supply/overhead tank projects amid moderate orderbook

The company has unexecuted order books of Rs. 4, 747 Mn (includes share of BNSPL through Joint Ventures) as on October 10, 2022. The order book of the company reflects mid-term revenue visibility for next 2 to 3 years. Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

The company's revenue base is highly concentrated mainly towards Water Supply/ Overhead Tank projects (74.51% of total order book) mostly from various government departments including Provincial and local bodies. This exposes the company to revenue concentration risk in terms of business segment. Although the company is looking to diversify its order book, the company's ability to successfully bid and execute these remains to be seen.

Tender based nature of operations in highly competitive construction industry

Majority of the BNSPL's projects are tender-based government contracts (including provincial and local bodies) wherein the company has to quote a bid. With multiple players active in the industry, BNSPL'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, BNSPL 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

Improving financial profile marked by increased project execution and steady profitability

In FY22, BNSPL reported increase in total operating income by 78.78% to Rs.565 Mn aided by increased project execution. However, PBILDT margin of the company slightly moderated to 10.09% in FY22 from 10.81% in FY21 amid increasing price of construction materials. Furthermore, the profitability margins also depend on the nature of contracts executed by the

company. Furthermore, PAT margin of BNSPL increased to 4.28% in FY22 from 3.84% in FY21 aided also by relatively lower finance cost as the company's operations was funded by elongated creditor's period.

Moderate counter party risk and escalation clause in majority of contracts

Revenue of BNSPL is majorly generated via contracts from government departments including provincial and local bodies. 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. This enable the company to pass increase in raw material prices to its customers. Ability of the company to pass increased burden to the customer in a timely manner and maintain profitability margins is a critical from credit perspective.

About the Company

Bidari Nirman Sewa Private Limited (BNSPL) is a Class "D" construction company in Nepal, incorporated on January 01, 2018, with registered office in Swoyambu, Kathmandu, Nepal. BNSPL is mainly involved in water supply projects and a few roads and building construction projects. In addition to doing projects independently, BNSPL 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	FY20 (A)	FY21 (A)	FY22 (UA)
Income from operations	101	316	565
PBILDT Margin (%)	8.37	10.81	10.09
Overall Gearing (times)	1.21	3.05	2.28
Interest Coverage (times)	4.99	10.21	8.68
Current Ratio (times)	0.89	1.05	1.28
Total Debt/ Gross Cash Accruals	2.26	2.70	2.57

A: Audited; UA: Unaudited

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	61.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	42.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non Fund Based Limit	1,147	CARE-NP BB-/A4
Total		1,250.00	

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