

## Kamal Jit Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	13.18	<b>CARE-NP B+ [Single B Plus]</b>	<b>Assigned</b>
Short Term Bank Facilities	70.00	<b>CARE-NP A4 [A Four]</b>	<b>Assigned</b>
Long Term/ Short Term Bank Facilities	650.50	<b>CARE-NP B+ /A4</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>733.68</b> <b>(Seven Hundred Thirty Three Million Six Hundred and Eighty Thousands only)</b>		

*Details of Facilities in Annexure 1*

Care Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP B+' to the long term bank facilities and the rating of 'CARE-NP A4' to the short term bank facilities of Kamal Jit Nirman Sewa Private Limited (KNSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KNSPL are constrained by its modest and fluctuating scale of operations with low capital base which could limit the company's ability to scale up, 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 promoter in the related fields, moderate order book position of the company, moderate counter party risk and escalation clause in majority of 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

##### Modest scale of operations with low capital base

KNSPL's Total Operating Income (TOI) has been fluctuating over the last five years (FY18-FY22; FY refers to the twelve-month period ending mid-July). The company's TOI stood at Rs. 161 Mn in FY22 (Unaudited), declining 25.80% over FY21 (Audited). The total income had grown substantially by 78.00% and 101.35% in FY19 and FY20 respectively, after which it declined for two consecutive years. The fluctuation was on account of variation in amount of works completed, which is dependent on the number and sizes of contracts awarded to the company and JVs. Furthermore, with paid up capital of Rs. 17 Mn as on mid-July 2022, the ability of company to scale up to larger sized contracts having better operating margins is constrained by its comparatively low capital base. Small scale of operations in a competitive industry could limit the pricing power and benefits derived from economies of scale. The ability of the company to profitably scale up its operations amidst high level of competition is critical from credit perspective.

##### Working capital intensive nature of operations

The operations of the company are working capital intensive in nature. KNSPL primarily works with various government departments and payments for the contracts are generally received only after the completion of work certification process and finalization of bills. Lengthy certification processes normally lead to high work in progress and inventory levels. Although KNSPL had high creditor's period of 87 days in FY22 on account of longstanding relationship with suppliers which are mostly

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

its group associates, the company's financial burden is likely to increase going forward leading to higher borrowing requirements as the company starts to pay off the outstanding payables coupled with increased execution of projects at hand. The company's average collection period was 94 days during the year (FY22). The high average collection period was due to high amount of trade receivables outstanding vis-à-vis total income, especially at the end of FY21, due to delays in realization of income. As the company also deals as a subcontractor where it supplies construction materials, the company's clients are not just government entities. Combination of these factors led to reliance of the firm on bank finance to meet its working capital requirements.

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

Majority of the KNSPL'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, KNSPL'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, KNSPL 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, with substantial upward pressure on interest rates in the last few quarters. A contractionary monetary policy for FY23 coupled with increasing inflation has only added to the upward pressure on interest rates, resulting in the rate hikes taken by BFIs in the first quarter of FY23. Any further 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 promoter in the related fields**

KNSPL has total number of two directors in its board. Mr. Bhim Shrestha, Chairman/Managing Director, has an experience of over two decades in the field of construction business. Mr. Shrestha is also involved as promoter/director in Kamalbinayak Concrete and Multipurpose Private Limited, Samanantar Concrete Udyog Private Limited and Sandarbhik Nirman Sewa, all of which are involved in manufacturing of various raw materials used in construction. With group associates involved in production of construction materials, it benefits the company in terms of synergy derived from economies of scale, better

inventory management, timely transportation and supply chain integration. The board is aptly supported by an experienced team across various functions/ departments.

### Moderate capital structure

The capital structure of KNSPL stood moderately leveraged with overall gearing ratio (including mobilization advance) of 1.87x at the end of FY22, improved from 2.33x at the end of FY21 on account of repayment of long term borrowings (vehicle loans) coupled with increase in net worth upon accretion of profits. Furthermore, debt service coverage indicators remain moderate with interest coverage of 1.87x during FY22 (PY: 2.84x).

### Moderate order book position and counter party risk

Revenue of KNSPL is majorly generated via contracts from government departments including provincial and local bodies. As on December 15, 2022, the unexecuted orders in hand of the company (including JV projects) stood at Rs. 1,005 Mn with 14 projects. 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 enables 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

KNSPL was initially founded as a proprietorship business in 1998 by Mr. Bhim Shrestha (current Chairman/ Managing Director) and was later converted into private limited company in September 11, 2020. KNSPL is a class-A construction company registered in Ministry of Physical Infrastructure and Transport and based in Kathmandu, Nepal. KNSPL has been involved for more than two decades in construction of both private and public sector projects, mainly building and road projects across Nepal.

### Financial Performance

(Rs. in Million)

For the period ended	FY20 (A)	FY21 (A)	FY22 (UA)
Income from operations	267	217	161
PBILDT Margin (%)	11.41	13.02	15.07
Overall Gearing (times)	1.63	2.33	1.87
Interest Coverage (times)	2.73	2.84	1.87
Current Ratio (times)	0.97	1.15	1.29
Total Debt/ Gross Cash Accruals	2.64	5.82	6.76

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	Fixed Term Loan	13.18	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limits	70.00	CARE-NP A4 [A Four]
Long Term/Short Term Bank Facilities	Non Fund Based Limits	650.50	CARE-NP B+/A4 [Single B Plus/ A Four]
<b>Total</b>		<b>733.68</b>	

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