

## Tirupate Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	51.44	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	56.26	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	792.30	CARE-NP B+ /A4 [Single B Plus/ A Four]	Assigned
<b>Total Facilities</b>	<b>900.00</b> <b>(Nine Hundred Million 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 Tirupate Nirman Sewa Private Limited (TNSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TNSPL are constrained by its modest scale of operations with concentrated project portfolio and leveraged capital structure. 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 experienced promoter in the related field with long track record in execution of various construction works, moderate order book position with mid-term revenue visibility, 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 operations 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

##### Modest scale of operations with leveraged capital structure

The financial risk profile of TNSPL is marked by its modest scale of operations with Total Operating Income (TOI) of Rs. 148 Mn during FY22 (Unaudited; FY refers to twelve-month period ending mid-July), although the company's scale of operations has increased on a year-on-year basis over the past three financial years (FY20-FY22). Company's TOI grew by ~16% in FY22 to Rs. 148 Mn which, however, remained lower than the pre-covid period. With increase in raw materials cost like rods & asphalt etc, PBILD of the company moderated to 17.84% in FY22 from PBILD margin of 18.11% in FY21. PAT margin of the company remained moderate at 3.67% in FY22 which improved from 2.05% in FY21 aided by stable finance cost during FY22.

The capital structure of the company is leveraged marked with debt equity ratio (without mobilization advance) 1.43x, overall gearing ratio (without mobilization advance) of 2.25x in FY22 (vis-à-vis 2.01 x and 2.19x respectively in FY21). The gearing ratio deteriorated in FY22 compared to FY21 majorly on account of increase in the utilization of working capital loan to support the growing scale of operations. TOL/ TNW of the company improved to 2.77x in FY22 from 2.95x in FY21 due to increment in net-worth of the company.

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

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

The company receives its majority work orders from government departments and local authorities. All contracts are tender-based for which TNSPL has to participate in the tenders, wherein the company has to quote the bid and hence it has to face the risk of successful bidding for the same, which again comes with the risk of quoting at low price through e-bidding to sustain the competition. TNSPL enters into construction contracts either individually or through JV entities in order to meet eligibility criteria for these contracts. TNSPL also receives subcontract from the various contractors.

There are numerous fragmented and unorganized players operating in this industry which makes the industry highly competitive and the ability of TNSPL to sustain its profitability margins and growth in future remain crucial. Furthermore, the business also remains dependent on 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, TNSPL 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 field with long track record in operations**

TNSPL has owned and controlled by Mr. Prabin Kumar Bhandari, Chairman/Managing Director, has an experience of over twenty five years in the field of construction business. He has been leading the company since its inception in 1998 AD. He is aptly supported by an experienced team across various functions/ departments. TNSPL has a long track record of over two decades in construction of various infrastructure projects.

**Moderate order book position with mid-term revenue visibility, albeit concentration in road construction projects**

The unexecuted order book of the company as on December 09, 2022 was Rs. 383 Mn (share of TNSPL only), which is 2.58x of the income from contract in FY22, providing moderate revenue visibility. The tenure of the orders undertaken by the company is up to 12-36 months. The order book is primarily concentrated towards road projects (~94%) and others include

irrigation, water supply related works, sewage works and bridge works received from various government authorities. Timely execution of the orders 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 contracts

Revenue of TNSPL is majorly generated via contracts from government departments including provincial and local bodies. The order book is primarily concentrated towards road 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. Presence of escalation clause in majority of the contracts 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 critical from credit perspective.

### About the Company

Tirupate Nirman Sewa Private Limited (TNSPL) is a Class "A" construction company in Nepal, incorporated on July 25, 2017, with registered office, Gorahi-16, Dang, Nepal. TNSPL is mainly involved in road projects and a few water supply and bridge construction projects. In addition to doing projects independently, TNSPL 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	108	127	148
PBILDT Margin (%)	20.97	18.11	17.84
Overall Gearing (times)	1.60	2.19	2.25
Interest Coverage (times)	3.29	3.39	3.71
Current Ratio (times)	0.81	1.30	1.28
Total Debt/ GCA	2.84	4.09	4.25

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	51.44	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limit	56.26	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non Fund Based Limit	792.30	CARE-NP B+/A4 [Single B Plus/ A Four]
<b>Total</b>		<b>900.00</b>	

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