

## P. S. Nirman Sewa

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	12.56	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	3.00	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	584.44	CARE-NP B+ / A4 [Single B Plus/ A Four]	Assigned
<b>Total Facilities</b>	<b>600.00</b> <b>(Six Hundred Million Only)</b>		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of P. S. Nirman Sewa (PSNS).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PSNS are constrained by its modest scale of operations with leveraged capital structure and proprietorship nature of constitution. The ratings also factor in tender based nature of operations in the highly competitive construction industry, exposure to volatile interest rates and regulatory risk and risk of delay in project execution.

The ratings, however, derive strengths from experienced promoter and established track record of operations, diversified and moderate order book position providing mid-term revenue visibility. The ratings also factor in moderate operating cycle, 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 a timely manner, profitably scale up the operations of the company leading to sustained revenue growth while maintaining profitability margins along with improving its overall financial risk profile will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

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

The scale of operations stood modest marked by total operating income (TOI) of Rs. 98 Mn in FY22. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low net-worth of Rs. 12 Mn at the end of FY22, which decreased from Rs. 13 Mn at the end of FY21. The modest scale of operations in a competitive industry limits the pricing power and benefits of economies of scale. Though, the risk is partially mitigated by the fact that the scale of operations is growing steadily.

Capital structure of the firm stood moderately leveraged as reflected from moderate overall gearing (incl mobilization advance) of 2.77x on mid-July 2022 (PY: 1.69x). Furthermore, Total Outside Liabilities (TOL)/ TNW of the company stood high at 4.06x as on mid-July 2022 which deteriorated from 2.16x as on previous balance sheet date.

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

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

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

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. 5,000 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, 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 increased base rates of BFIs in the first half 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.

### **Risk of delay in project execution**

Given the nature of projects awarded, PSNS 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 promoter and established track record of operations albeit proprietorship nature of constitution**

PSNS is promoted by Mr. Prakash Shah, sole proprietor, who has been leading the firm since its inception in February 2010. Mr. Shah has experience of more than two decades in the construction sector which bodes well for the overall business prospects of the firm in an increasingly competitive industry. He is responsible for execution of projects undertaken by the company. Furthermore, he is supported by an experienced team across various functions. The company has established track record of operations of more a decade in the construction of various infrastructure projects all over Nepal.

PSNS, being a sole proprietorship firm, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency/decision of the proprietor. Mr. Shah, proprietor, have drawn advance and withdrawn from the reserves of the firm in the past. Furthermore, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

### **Diversified and moderate order book position**

As on January 14, 2023, the unexecuted orders in hand of the company stood at Rs. 329 Mn, which is 3.35x of the income from contract of FY22, providing moderate revenue visibility. The order book is diversified among road, building, water supply, stadium and bridge projects; yet remain majorly concentrated towards road projects (~49% of total order book)

and building projects (~30% of total order book). Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

### Moderate operating cycle

The working capital cycle of PSNS appears to be moderate, primarily because the firm has low collection period. As a result, the fund based working capital requirement for the company remains on the low side, which resulted in average utilization at below 20% of its sanctioned working capital borrowings during the last 12 months period ended mid-January 2023.

PSNS's inventory holding period was around 34 days in FY22 with major inventory being construction materials as the company has to maintain inventory at various sites for smooth execution of project works. The funds are released only after the work certification process is completed and finalization of the bill is done. Customer base includes government departments / bodies; therefore, the certification and realization of the bill generally takes the period of around a month. Consequently, average collection period of the company was low at around 13 days in FY22 (PY:17 days).

Interest coverage ratio of the company was moderate at 2.47x in FY22 which improved from 1.54x in FY21 majorly on account of increased PBILDT. However, amid higher term liabilities, Total debt/ GCA of the firm stood moderately high at 4.22x in FY22 (PY:4.54x).

### Moderate counter party risk

Revenue of PSNS is generated majorly via contracts from government departments. The order book is primarily concentrated towards road and 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.

### About the Company

P. S. Nirman Sewa (PSNS) is a class "B" construction firm of Nepal incorporated in year 2010 with its registered office based in Banke, Nepal. The company is involved in construction of building, roads, bridges, irrigation works etc. across Nepal. In addition to doing projects independently, PSNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

### Financial Performance

(Rs. Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	46	77	98
PBILDT Margin (%)	18.02	18.04	16.36
Overall Gearing (times)	0.31	1.69	2.77
Total Outstanding Liabilities/Tangible Net worth (times)	1.60	2.16	4.06
Interest Coverage (times)	2.30	1.54	2.47
Current Ratio (times)	0.46	2.34	1.95
Total Debt/Gross Cash Accruals (times)	0.79	4.54	4.22

A: Audited

### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	12.56	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limits	3.00	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non Fund Based Limits	584.44	CARE-NP B+/ A4 [Single B Plus/ A Four]
<b>Total</b>		<b>600.00</b>	

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#### About CARE Ratings Nepal Limited:

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