

R.B. Urban Builders and Suppliers Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	11.90	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	584.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	595.90 (Five Hundred Ninety-Five Million and Nine Hundred Thousand Only)		

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 R.B. Urban Builders and Suppliers Private Limited (RBPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RBPL are constrained by its modest scale of operations with leveraged capital structure and its nascent track record of operations. The ratings also factor in working capital intensive nature of operations, 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 strength from experienced promoters, moderate yet concentrated order book position providing mid-term revenue visibility. The ratings also factor in 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. 50 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. 23 Mn at the end of FY22, which increased 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 leveraged as reflected from moderately high overall gearing (incl mobilization advance) of 2.92x on mid-July 2022 (PY: 4.54x). Furthermore, Total Outside Liabilities (TOL)/ TNW of the company stood high at 3.47x as on mid-July 2022 which improved from 6.21x as on previous balance sheet date.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature marked by high collection and inventory holding period. RBPL's inventory holding period stood at 98 days in FY22. The relatively higher inventory holding period was on account of stocking up of construction materials as the company is required to maintain inventory at various sites for

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

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 majorly government departments/ bodies; therefore, the certification and realization of the bill generally takes the period of around 1-2 months. Average collection period of the company was high at around 129 days in FY22 which deteriorated from 88 days in FY21. These factors lead to increased reliance of the company on borrowings to meet its working capital requirements.

Tender based nature of operations in highly competitive construction industry

Majority of the RBPL's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, RBPL'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. 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, RBPL 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 promoters albeit nascent track record of operations

RBPL has four directors in its Board of Directors chaired by Mr. Nawaraj Acharya, who is involved in construction sector for around six years. Mr. Rajesh Bhetwal, Managing Director, has experience of around 8 years and manages overall projects executed by the company. Furthermore, he is supported by an experienced team across various functions. The company has nascent track record of operations of around 3 years in the construction of various infrastructure projects all over Nepal. Due to the relatively short track record of the company in construction field, its ability to successfully bid for construction contracts, improve its order book position and revenue profile over the period remains key rating consideration.

Moderate order book position

As on November 01, 2022, the unexecuted orders in hand of the company stood at Rs. 214 Mn, which is 4.92x of the income from contract of FY22, providing moderate revenue visibility. The order book is majorly concentrated towards civil construction projects (~86% of total order book) and other projects include bridge and stadium projects. 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 counter party risk

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

R.B. Urban Builders and Suppliers Private Limited (RBPL) is a class "D" construction company of Nepal incorporated in year 2019 with its registered office based in Hetauda, Nepal. The company is involved in construction of building, bridges, stadiums etc. across Nepal. In addition to doing projects independently, RBPL 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	103	106	50
PBILDT Margin (%)	7.17	11.32	25.84
Overall Gearing (times)	1.10	4.54	2.92
Total Outstanding Liabilities/Tangible Net worth (times)	5.12	6.21	3.47
Interest Coverage (times)	2.71	1.62	1.56
Current Ratio (times)	1.23	1.06	1.35
Total Debt/Gross Cash Accruals (times)	3.07	16.36	15.27

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	11.90	CARE-NP B+ [Single B Plus]
Short Term Bank Facilities	Fund Based Limits	79.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non Fund Based Limits	505.00	CARE-NP A4 [A Four]
Total		595.90	

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