

## Jambudip Construction Private Limited

### Ratings

| Facilities                           | Amount<br>(Rs. in Million)                           | Ratings <sup>1</sup>              | Rating Action |
|--------------------------------------|--|-----------------------------------|---------------|
| Long Term Bank Facilities            | 4.07   | CARE-NP B+<br>[B Plus]            | Reaffirmed    |
| Short Term Bank Facilities           | 10.5   | CARE-NP A4<br>[A Four]            | Reaffirmed    |
| Long Term/Short Term Bank Facilities | 885.43   | CARE-NP B+ /A4<br>[B Plus/A Four] | Reaffirmed    |
| <b>Total Facilities</b>              | <b>900.00</b><br><b>(Nine Hundred Millions Only)</b> |                                   |               |

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Jambudip Construction Private Limited (JCPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JCPL continue to be constrained by small and fluctuating scale of operations with concentrated projects, working capital intensive nature of the business marked by highly elongated inventory period at the end of FY22 (Audited, refers to the twelve-month period ended as on mid- July), tender based nature of operations in highly competitive construction industry and risk of delay in project execution. The ratings also factor in the high potential gearing of the company amid relatively large non-fund based exposure.

The ratings, however, derive strength from experienced promoters, moderately leveraged capital structure and escalation clause in majority of the contracts with moderate counter party risk.

*Going forward, the ability of the company to profitably scale up its operations though diversification amidst high level of competition and manage its working capital requirements to support growth will be crucial and act as the key rating sensitivities.*

#### Detailed Description of the Key Rating Drivers

##### Key Rating Weaknesses

##### Small and fluctuating scale of operation with concentrated project portfolio

The total operating income of JCPL stood relatively small with Total Operating Income (TOI) of Rs. 167 Mn in FY22, which declined by ~4% year-on-year amid lower execution of contracts at hand. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low capital base of Rs. 40 Mn as on mid-July 2022. The small scale of operations in a competitive industry limits the pricing power and benefits of economies of scale.

JCPL's outstanding order book as on stood at Rs. 437 Mn which is 100% concentrated towards Building construction works. The limited exposure to the diverse sectors limits JCPL's execution capabilities which would restrict the order book position and revenue in the upcoming years.

##### Below average financial risk profile

JCPL has fluctuating total operating income (TOI) in last 3 years ending FY22. TOI declined by ~4% year-on-year in FY22 amid lower execution of contracts at hand. PBILDT margin declined to ~4.98% in FY22 from ~8.07% in FY21 mainly due to execution of lower margin bridge project in FY22. On account of low dependence on external fund based borrowings, the capital structure and debt service coverage indicators stood satisfactory for the company in FY21 and FY22 with overall

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

gearing standing at around unity level in last 2 fiscals. However, TOL/TNW stood high at 3.87x and 3.35x at the end of FY22.

### **Working capital intensive business**

The operations of the company are working capital intensive in nature marked by substantially high inventory holding period at the end of FY22. The company works with government and private departments with payments for contracts being delayed due to budget constraints in some projects. The average inventory holding days remained high at 283 days as on FY22 compared to 253 days in FY21, with over half the inventory related to WIP projects. Furthermore, work done by the company needs to be verified by the consultants/ engineers of both JCPL and government beforehand in order to raise the bill to the concerned authority leading to high work in progress.

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

Majority of the JCPL'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, JCPL'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.

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

Given the nature of projects awarded, JCPL 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.

### **Key Rating Strengths**

#### **Experienced promoters**

JCPL is promoted by Mr. Ram Bahadur Khatri and Mr. Sagar Khatri. Mr. Ram Bahadur Khatri, Managing Director, has more than 26 years of experience in construction projects with specialization in building work and manages overall projects and operation of the company. Mr. Sagar Khatri, Director has around 3 years of experience in administration and marketing department who oversees tender and administrative function of the company. Board of directors are further supported by an experienced team across various functions/ departments.

#### **Escalation clause in majority of the contracts with moderate counter party risk**

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

## Industry Outlook

The construction sector in Nepal has been impacted by lower execution in the aftermath of the covid-19 pandemic with slower pace of economic growth coupled with relatively lower infrastructure spending by the government. Furthermore, contractors' cash flows have also come under pressure as a result of highly inflated construction costs leading to shrinking margins over FY22-H1FY23. Increasing trend in fuel price, which is a key input for road construction, building materials and other construction equipment, has added to the margin pressure. Furthermore, as government capital expenditure continues to remain substantially lower than budgeted amount, income prospects remain subdued over the near-term which coupled with delays in payments to contractors has led to some stress in the construction sector in H1FY23 leading to the slippages in the construction portfolio of BFIs. Near term operating environment for construction companies, including RCPL, remains challenging and will remain a key monitorable aspect.

## About the Company

Jambudip Construction Private Limited (JCPL), was first introduced in Nepal in the year 2006 as a "C" class Construction Company with registered office based in Basundhara, Kathmandu. The company is mainly involved in construction of buildings both government and private including commercial complex and health care center along with bridge work. JCPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of JCPL (Standalone) for last three years ending FY22 are given below:

(Rs. Million)

| For the Period Ended / as at Mid-July,                   | FY20     | FY21     | FY22     |
|--|----------|----------|----------|
|  | (12m, A) | (12m, A) | (12m, A) |
| Income from Operations                                   | 161      | 174      | 167      |
| PBILDT Margin (%)  | 10.47    | 8.07     | 4.98     |
| Overall Gearing (times)                                  | 1.11     | 0.25     | 0.39     |
| Total Outstanding Liabilities/Tangible Net worth (times) | 3.76     | 3.87     | 3.35     |
| Interest Coverage (times)                                | 7.79     | 12.02    | 11.68    |
| Current Ratio (times)                                    | 1.30     | 1.05     | 1.17     |
| Total Debt/ Gross Cash Accruals (times)                  | 2.86     | 0.84     | 2.17     |

A: Audited

## Annexure 1: Details of the Facilities Rated

| Name of the Bank Facilities           | Type of the Facility  | Amount<br>(Rs. In Million) | Ratings                            |
|---------------------------------------|-----------------------|----------------------------|------------------------------------|
| Long Term Bank Facilities             | Term Loans            | 4.07                       | CARE-NP B+<br>[B Plus]             |
| Short Term Bank Facilities            | Working Capital Loans | 10.50                      | CARE-NP A4<br>[A Four]             |
| Long Term/ Short Term Bank Facilities | Non-Funded Loans      | 885.43                     | CARE-NP B+ / A4<br>[B Plus/A Four] |
| <b>Total</b>                          |                       | <b>900.00</b>              |                                    |

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