

## Roshan Construction Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	225.11	<b>CARE-NP BB+ [Double B Plus]</b>	<b>Assigned</b>
Short Term Bank Facilities	450.00	<b>CARE-NP A4+ [A Four Plus]</b>	<b>Assigned</b>
Long Term/ Short Term Bank Facilities	11,324.89	<b>CARE-NP BB+ / A4+ [Double B Plus/ A Four Plus]</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>12,000.00 (Twelve Thousand Million Only)</b>		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB+' to the long term bank facilities and 'CARE-NP A4+' to the short term bank facilities of Roshan Construction Private Limited (RCPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RCPL are constrained by its leveraged capital structure and working capital intensive nature of operations marked by highly elongated collection period in FY22 (Audited; FY refers to the twelve-month period ending mid-July). Slower debtor realization trend in the construction sector could spill over into FY23, particularly given the lower than expected government revenue collections so far, this fiscal. A sustained high collection period could add to the financial burden of the company over the near-term, which could be a challenge given the current credit crunch in the Nepalese banking sector. The ratings also factor in the 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 rating also takes cognizance of the near-term challenges faced by the construction sector in Nepal with elongated operating cycle leading to increased financial burden on contractors. Ongoing challenges in the construction sector is also visible from the increased slippages in the construction portfolio of majority of Class A banks as on mid-January 2023, which remains a rating constraint from the industry perspective.

The ratings, however, derive strength from the established track record of operations of company along with experienced promoters and healthy, albeit concentrated, order book position providing mid-term revenue visibility. The ratings also factor in moderate counter party risk over the medium-term 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 and manage its working capital requirements to support growth will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Moderate financial risk profile of the company

During FY22, RCPL achieved Total Operating Income (TOI) of Rs. 1,807 Mn which decreased from Rs. 1,961 Mn in FY21 amid the slowdown in government capital expenditures and revenue collection over the last year or so coupled with the ongoing liquidity stress in the banking industry. The business generation of the company is through bidding and tendering process and profitability margins are directly associated with the nature of contracts executed by the company. PBILDT margin of the company remained range bound between 11%-13% during the past 3 FYs (FY20-FY22), increased by 20 bps to 11.88% in FY22 with higher execution of high margin projects. However, PAT margin of RCPL decreased to 2.93%

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

in FY22 from 3.52% in FY21 amid higher interest expenses with higher utilization of working capital limits by the company coupled with increased funding cost during the period.

Capital structure of RCPL stood leveraged with overall gearing ratio (including mobilization advance, normally interest free) of 2.42x as on mid-July 2022, improved from 4.33x as on previous balance sheet date. Overall gearing ratio (excluding mobilization advance) stood moderate at 1.94x as on mid-July 2022, improved from 3.52x as on previous balance sheet date. Gearing levels have improved in FY22 supported by increased net worth base in FY22 which was on account of infusion of Rs. 64 Mn as equity and accretion of profits to reserves of the company in FY22. Interest coverage ratio stood moderate at around 3.29 times in FY22; however, total debt to GCA stood high at 6.52x in FY22 on account of higher balance of mobilization advances and loans from JVs. Furthermore, Total Outside Liabilities (TOL)/ TNW of the company also stood high at 5.49x in FY22, although improving from 8.56x in FY21 aided by increased net worth base in FY22.

### **Elongated operating cycle with increasing trend in collection period**

The operations of the company are working capital intensive in nature marked by high collection period at the end of FY22. RCPL's average collection period elongated to 148 days in FY22 from 129 days in FY21. RCPL's customer base includes majorly government departments/ bodies directly or under sub-contract basis; therefore, the certification and realization of the bill generally takes the period of around 2-3 months. The funds are released only after the work certification process is completed and finalization of the bill is done. However, a substantially elongated collection period is a concern, particularly amid the slowdown in government capital expenditures and revenue collection over the last year or so coupled with the ongoing liquidity stress/credit crunch in the banking industry. Although counterparty risk remains low over the long-term, stretched operating cycle could put additional burden in the company's financial profile over the near-term. Operating cycle of the company was elongated at 102 days in FY22 which increased from 66 days in FY21. Amid increasing working capital intensity, the company's reliance on borrowings to meet its working capital requirements is only likely to increase further. Hence, the company's ability to timely turnaround projects under work-in-progress coupled with swifter debtor realization will be critical from credit perspective.

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

Majority of the RCPL's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, RCPL'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, RCPL 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 and established record of operations**

RCPL has four directors in its Board of Directors chaired by Mr. Sanjay Kumar Gupta, who has been leading the company since its inception in 2002. Mr. Gupta has experience of more than two decades in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. Furthermore, the board is supported by an experienced team across various functions. The company has established track record of operations of over two decades in the construction of various infrastructure projects all over Nepal.

#### **Healthy, albeit concentrated order book position**

The company has unexecuted order book of Rs. 7,087 Mn, which is 3.92x of the income from contract of FY22 as on January 31, 2023 providing moderate revenue visibility. The company's order book position is highly concentrated mainly towards building and road projects (~86% of total order book) mostly from various government departments including provincial and local bodies. This exposes the company to revenue concentration risk in terms of business segment. Concentration of government orders exposes the company with risk related to allocation of fund or regulatory changes mainly in the Public Procurement Act and other related regulations. Two of the total projects account for around 62% of the total order book. Having a concentrated order book on few projects links the company's performance to the same and any delays in execution of such projects can materially impact the company's financial health. Timely completion of the projects, including RCPL's ability to regularly bill and realize projects under progress, 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 RCPL is generated majorly via contracts from government departments. The order book is primarily concentrated towards building and 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.

### **Industry Outlook**

The construction sector in Nepal has been impacted by lower execution in the aftermath of the covid19 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

Roashan Construction Private Limited (RCPL) is a class "B" construction company of Nepal incorporated in year 2022 with its registered office based in Janakpur, Nepal. The company is involved in construction of building, roads, bridges etc. across Nepal. In addition to doing projects independently, RCPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

### Analytical Approach

CRNL has analysed RCPL's credit profile by considering the consolidated financial statements comprising RCPL and its joint venture entities related to the construction projects.

### Financial Performance

For the Period	(Rs. Million)		
	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,660	1,961	1,807
PBILD Margin (%)	13.20	11.68	11.88
Overall Gearing (times)	3.47	4.33	2.42
Total Outstanding Liabilities/Tangible Net worth (times)	7.45	8.56	5.49
Interest Coverage (times)	3.82	3.99	3.29
Current Ratio (times)	1.17	1.26	1.25
Total Debt/Gross Cash Accruals (times)	6.40	7.01	6.52

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	225.11	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Fund Based Limits	450.00	CARE-NP A4+ [A Four Plus]
Long Term/ Short Term Bank Facilities	Non Fund Based Limits	11,324.89	CARE-NP BB+/ A4+ [Double B Plus/ A Four Plus]
<b>Total</b>		<b>12,000.00</b>	

### Contact Us

#### Analyst Contact

Mr. Girish Bhatta  
+977-01-4012630  
[girish.bhatta@careratingsnepal.com](mailto:girish.bhatta@careratingsnepal.com)

Mr. Santosh Pudasaini  
+977-01-4012628  
[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

**Relationship Contact**

Mr. Achin Nirwani

+977-9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)**About CARE Ratings Nepal Limited:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.