

Tribeni Bramhayani Construction Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	52.15	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	60.00	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	887.85	CARE-NP BB -/A4 [Double B Minus/A Four]	Assigned
Total Facilities	1,000.00 (One Thousand Million Only)		

Details of Facilities in Annexure 1

Care Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long term bank facilities and the rating of 'CARE-NP A4' to the short term bank facilities of Tribeni Bramhayani Construction Private Limited (TBCPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TBCPL are constrained by volatile operational performance over the last three fiscals with low execution during the pandemic period, albeit rebound in FY22 (Audited, FY refers to the twelve-month period ended mid-July). The ratings also factor in the concentrated revenue base in a single project. The ratings take note of the tender based nature of operations in a highly competitive construction industry, risk of delay in project execution and exposure to volatile interest rates.

The ratings, however, derive strengths from experienced promoters with long track records in executing various construction works, moderate capital structure and debt service coverage indicators, moderate operating cycle, moderate counter party risk and escalation clause in majority of contracts. The ratings also factor in the company's improved operational performance in FY22, albeit sustained execution over a longer period remains to be seen.

Going forward, the ability of the company to successfully execute projects and recover contract proceeds in timely manner, manage healthy revenue growth and maintain profitability margins without deterioration in its financial risk profile shall be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Concentrated revenue base with moderate order book position

The outstanding value of unexecuted orders in hand of the company stood healthy at Rs. 1,010 Mn as on mid-February 2023 which is approximately 2.29x of its total income from contracts for FY22. However, ~53% of the order book is concentrated towards a single project. Hence, revenue visibility outside of this project remains low. Furthermore, 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 TBCPL's ability to regularly bill and realize projects under progress, would be critical from analytical perspective.

Tender based nature of operations in highly competitive construction industry

The company receives majority of its work orders from government departments and local authorities. All contracts are tender-based for which TBCPL has to participate in the tenders, wherein the company has to quote the bid and hence it has to face the risk of quoting at low prices in order to secure the tender and sustain in an increasingly competitive industry.

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

TBCPL enters into construction contracts either individually or through JV entities in order to meet eligibility criteria for these contracts. TBCPL 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 TBCPL to sustain its profitability margins and growth in future remains 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. 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 and timely realization of proceeds from contracts

Given the nature of projects awarded, TBCPL 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 in delayed realization of revenue growth. Furthermore, the company's ability to execute projects in a timely manner would be led by its own operational efficiency and timely payments received from its clients. Although counter party risk over the medium term remains moderate given the projects are from government departments, which have been making timely payment to the company in the past, timely debtor realization, particularly at times of economic downturn, remains a key challenge for the construction sector. 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 a credit perspective.

Key Rating Strengths

Experienced promoters with long track record in construction in industry

Mr. Pratap Singh Tamang is the chairperson of the company who had also been the proprietor of Tribeni Construction (founded in 2005, converted to private limited company in March 03, 2019). He has over two decades of experience in the construction sector having worked as a sub-contractor and contractor for various projects. Mr. Dhan Bahadur Shrestha, Director, has worked as a sub-contractor and project co-ordinator for various projects for almost a decade. Mr. Subash Timilsina, Director, is a registered Civil Engineer. He has worked as a site engineer and contract manager for various construction companies. Promoters with substantial experience and expertise in construction business bodes well for the overall business prospects of the company in an increasingly competitive industry.

Rebound in financial performance in FY22

The operational performance of the company rebounded in FY22 with Total Operating Income of Rs. 442 Mn. Activities of TBCPL had been subdued over FY20 and FY21 amid the pandemic resulting in low TOI (Rs. 86 Mn in FY21). With improvement in TOI, PBILDT of the company also increased by 338% to Rs. 55.71 Mn in FY 22 with PBILDT margin of Rs 12.61Mn. The company has recorded a net profit of Rs 18.88 Mn showing a 68.9% increase over previous year. The company's ability to sustain the scale of operations going forward remains to be seen, particularly in light of the concentrated order book position of the company.

The overall gearing ratio of TBCPL stood at 1.29x at the end of FY22 which improved from 39.82x at the end of FY21 on account of improvement in net worth supported by equity injection of Rs. 53 Mn coupled with accretion of profits to the reserves of the company. Net worth of the company increased to Rs. 73.29 Mn as on mid-July 2022 from Rs. 1.02 Mn as on mid-July 2021. Interest coverage ratio stood at 3.13x as in FY22, improving from 2.66 times in FY21.

Moderate counter party risk and escalation clause in majority of contracts

Revenue of TBCPL is majorly generated via contracts with government departments and local bodies related to road and river works with escalation clause in majority of the contracts. The average collection period of the company was around 47 days in FY22. Generally, in construction businesses, work done by the company needs to be verified by consultants/ engineers before issuing the bill to the concerned authority which takes around 30 days, generally attributing to delay in fund realization. The counter party risk is moderated by the fact that majority of the construction contracts are obtained from government departments and other local bodies who have been making timely payments in the past. However, some contractors have been impacted by delays in timely realization of contract proceeds. Going forward also, the timely realization of debtors shall remain key from a credit perspective.

Analytical Approach

CRNL has analyzed TBCPL's credit profile by considering the standalone financial statements of the entity.

About the Company

Tribeni Bramhayani Construction Private Limited (TBCPL) is a Class "A" construction company of Nepal which was incorporated on March 03, 2019 with registered office based in Manohara Ward No 6, Kathmandu, Nepal. The company had previously been registered as a proprietorship firm under the Small and Cottage Industries Department by the name of Tribeni Construction (incorporated on August 12, 2005). The company is mainly involved in construction of hydropower projects, roads, etc. across various parts of Nepal.

Financial Performance

(Rs in Million)

For the period ended/ as at mid-July	FY20 (A)	FY21 (A)	FY22 (A)
Income from operations	6	86	442
PBILDT Margin (%)	Negative	14.78	12.61
Overall Gearing (times)	60.97	39.82	1.29
Interest Coverage (times)	Negative	2.66	3.13
Current Ratio (times)	0.36	0.67	1.17
Total Debt/ Gross Cash Accruals	Negative	8	32

A: Audited.

Annexure 1: Details of the Facilities rated

Facilities	Type of Facility	Amount (Rs. in Million)	Ratings ²
Long Term Bank Facilities	Term Loan	52.15	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	60.00	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non-Fund Based Limit	887.85	CARE-NP BB -/A4 [Double B Minus/A Four]
Total Facilities		1,000.00 (One Thousand Million Only)	

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