

Rabi Construction Company Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	3.00	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	607.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	610.00 (Six Hundred and Ten Million Only)		

Details of instruments/facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RCPL are constrained by its modest scale of operations with low capital base and declining trend of income levels over FY21-FY23 (FY refers to the twelve-month period ending mid-July). The ratings also factor in working capital intensive nature of operations, income prospects susceptible to the tender based nature of operations in the highly competitive construction industry, exposure to volatile interest rates and risk of delay in project execution.

The ratings, however, derive strengths from experienced promoter in the related field, moderate capital structure and debt coverage indicators, moderate counter party risk and escalation clause in majority of contracts.

Going forward, the ability of the company to profitably scale up the operations of the company leading to sustained revenue growth while maintaining profitability margins, successfully execute projects and recover contract proceeds in a timely manner will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Small scale of operations with declining income trend

RCPL's scale of operations is small with total operating income (TOI) and gross cash accruals (GCA) of Rs. 117 Mn and Rs. 11 Mn, respectively, during FY23. TOI has been on a declining trend over FY20-FY23, declining from Rs. 222 Mn to Rs. 117 Mn over this period amid slower project execution. 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 2.40 Mn as on FY23. The small scale of operations in a competitive industry limits the pricing power and benefits of economies of scale.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by high collection period at the end of FY23. RCPL's average collection period elongated to 177 days in FY23 from 67 days in FY22. 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. Amid increasing working capital intensity, the company's reliance on borrowings to meet its working capital requirements is

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

likely to increase further. Hence, the company's ability to timely turnaround ongoing projects coupled with swifter debtor realization will be critical from credit 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 RCPL 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. There are numerous fragmented and unorganized players operating in this industry which makes the industry highly competitive and the ability of RCPL 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 from participating 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

RCPL's interest expenses are based on 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. Thus, funding taken by the firm is exposed 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, resulting in delay in the realization of revenue. Furthermore, the company's 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 moderate track record of operations

RCPL has three directors in its board. The company is promoted by Mr. Narendra Prasad Singh, Mr. Bijay Prasad Singh, and Mr. Surendra Prasad Singh holding 100% shareholding of the company. Mr. Narendra Prasad Singh, Managing Director, has been leading the company since its inception from 2016 and has experience of around a decade in construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. Other directors also have considerable work experience in construction sector. Furthermore, the board is supported by an experienced team across various functions. The company has moderate track record of around seven years in the construction of various infrastructure projects in Nepal.

Moderate capital structure and debt coverage indicators

Capital structure of RCPL stood moderate with overall gearing ratio of 1.56x as on mid-July, 2023 (PY: 1.94x). The gearing ratio improved in FY23 compared to FY22 majorly on account of repayment of term loan along with increase in net worth of the company. Interest coverage ratio of the company was moderate at 3.05x in FY23 which however deteriorated from 4.95x in FY22 on account of higher interest outgo. Also, Total Outside Liabilities/Tangible Net Worth of the company

improved to 2.57x in FY23 from 3.17x in FY21 on account of increase in net worth of the company. Total debt/ GCA of the company deteriorated to 6.42x in FY23 from 5.59x in FY22 mainly due to decline in GCA.

Moderate counter party risk

Revenue of RCPL is generated majorly via contracts from government departments. The order book is primarily concentrated towards road and bridge 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, 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 FY23 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

Rabi Construction Company Private Limited (RCPL) is a class "A" construction company of Nepal incorporated in year 2016 with its registered office based in Sarlahi District, Nepal. The company is involved in construction of bridges, roads 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.

Financial Performance

(Rs. Million)

For the year ended mid-July	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	189	183	117
PBILDT Margin (%)	12.46	11.45	15.94
Overall Gearing (times)	1.72	1.94	1.56
Total Outstanding Liabilities/Tangible Net worth (times)	3.10	3.17	2.57
Interest Coverage (times)	3.90	4.95	3.05
Current Ratio (times)	0.87	1.45	1.15
Total Debt/Gross Cash Accruals (times)	4.02	5.59	6.42

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Hire Purchase Loan	3.00	CARE-NP B+
Long Term/Short Term Bank Facilities	Fund/Non-Fund Based Limits	607.00	CARE-NP B+/A4
Total		610.00	

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About CARE Ratings Nepal Limited:

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