

Bidari Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	61.00	CARE-NP BB- [Double B MINUS]	Reaffirmed
Short Term Bank Facilities	42.00	CARE-NP A4 [A Four]	Reaffirmed
Long Term/ Short Term Bank Facilities	1,147.00	CARE-NP BB -/A4 [Double B -/A four]	Reaffirmed
Total Facilities	1,250.00 (One Thousand Two Hundred and Fifty Million)		

Details of Facilities in Annexure 1

Care Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB-' assigned to the long-term bank facilities and the rating of 'CARE-NP A4' assigned to the short-term bank facilities of Bidari Nirman Sewa Private Limited (BNSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BNSPL continue to remain constrained by its short track record of operations with low capital base limiting scope for substantial growth in operations, concentrated revenue base, tender based nature of operations in highly competitive construction industry, risk of delay in project execution, and exposure to volatile interest rates.

The ratings, however, derive strengths from improving financial performance in FY23 (Unaudited, FY refers to twelve-month period ending mid-July) with moderate capital structure, moderate counter party risk and escalation clause in majority contracts.

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record of operations with low capital base

The company has a relatively short track record of five years in construction sector. With paid up capital of Rs. 50 Mn as on mid-July 2023, the ability of company to scale up larger sized contracts having better operating margins is constrained by its comparatively low capital base. Small scale of operation in a competitive industry could limit the pricing power and benefits derived from economic of scale. Furthermore, the promoter has limited experience in the field of construction.

Revenue base concentrated towards water supply projects amid moderate orderbook

The company has unexecuted order books of Rs. 7, 515 Mn (includes share of BNSPL through Joint Ventures) as on Mid-December, 2023. The order book of the company reflects mid-term revenue visibility for next 2 to 3 years. The company's revenue base is highly concentrated mainly towards Water Supply / overhead tank projects (51.87% 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. Although the company is looking to diversify its order book towards roads projects and buildings, the company's ability to successfully bid and execute these remains to be seen. Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

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

Tender based nature of operations in highly competitive construction industry

Majority of the BNSPL'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, BNSPL'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, BNSPL 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. Additionally, the company could not complete projects in FY23, leading to material delays in project completion. Therefore, 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.

Exposure to volatile interest rates

The company's interest rates 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. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths**Improving financial performance in FY23, with moderate capital structure**

BNSPL's scale of operation has been on an increasing trend in FY23. The total operating income of BNSPL increased to ~Rs. 1,082 Mn in FY23 aided by increased project execution. The company reported an increase in operating income by ~92% in FY23 over FY22. Despite substantial increase in operating income from construction, PBILDT margin of the company declined to ~ 8% in FY23 from ~10% in FY22, due to increase in cost of sales. Similarly, the capital structure of the company is moderate marked with debt equity ratio (including mobilization advance) of 1.30x, overall gearing ratio (including mobilization advance) of 1.32x as on mid-July 2023. The gearing ratio improved in FY23 compared to FY22 majorly on account of increase reserve and surplus. Also, Interest coverage ratio of the company was adequate at 7.35x in FY23 which improved from 6.78x in FY22, due to an increase in PBILDT.

Moderate counter party risk and escalation clause in majority of contracts

Revenue of BNSPL is majorly generated via contracts from government departments including provincial and local bodies. The order book is primarily concentrated towards water supply 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. Furthermore, the company has inbuilt price escalation clauses in majority of contracts in order to insulate the company from the adverse fluctuation in construction material prices and labor expenses. 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-FY23. 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. However, as per the Fiscal Policy for FY24, the government has emphasized spending in infrastructure, energy and industries sector with allocation of budget of Rs. 131,596 Mn. (~8% of total budget) to Ministry of Physical Infrastructure and Transportation and Rs. 87,450 Mn. (~5% of total budget) to Ministry of Energy, Water Resources and Irrigation. The near-term operating environment for construction companies would hinge on the government's ability to spend on capital expenditure as budgeted, which has been on the lower side over FY22-FY23.

About the Company

Bidari Nirman Sewa Private Limited (BNSPL) is a Class "D" construction company in Nepal, incorporated on January 01, 2018, with registered office in Swoyambu, Kathmandu, Nepal. BNSPL is mainly involved in water supply projects and a few roads and building construction projects. In addition to doing projects independently, BNSPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

For the period ended/ as at mid-July	FY21 (A)	FY22 (A)	FY23 (UA)
Income from operations	316	565	1,082
PBILDT Margin (%)	10.81	9.70	7.56
Overall Gearing (times)	3.05	2.22	1.32
Interest Coverage (times)	10.21	6.78	7.35
Current Ratio (times)	1.05	0.99	1.43
Total Debt/ Gross Cash Accruals	2.70	2.39	2.46

A: Audited; UA: Unaudited

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	61.00	CARE-NP BB-
Short Term Bank Facilities	Fund Based Limit	42.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Fund Based Limit	1,147.00	CARE-NP BB-/A4
Total		1,250.00	

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