

## Ramechhap Sherpa Construction Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	139.31 (Decreased from 140.80)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	98.70	CARE-NP A4 [A Four]	Reaffirmed
Long Term/ Short Term Bank Facilities	1,002.10 (Increased from 1,000.50)	CARE-NP BB/ A4 [Double B/ A Four]	Reaffirmed
Long Term/ Short Term Bank Facilities	581.00	CARE-NP BB/ A4 [Double B/ A Four]	Assigned
<b>Total Facilities</b>	<b>1,821.11</b> <b>(One Billion Eight Hundred Twenty-One Million and One Hundred Ten Thousand only)</b>		

*Details of instruments/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 'CARE- NP A4' assigned to the short term bank facilities of Ramechhap Sherpa Construction Private Limited (RSC).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RSC continue to be constrained by concentrated though moderate order book position, working capital intensive nature of business, high counter party risk and its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings are also constrained by exposure to volatile interest rates and government regulations and risk of delay in project execution.

The ratings, however, derive strengths from experienced promoters and long track record of operations, improving trend in financial risk profile marked by growing total operating income (TOI) in FY23 (FY refers to the twelve-months period ending mid-July), moderate capital structure and debt service indicators of the company and escalation clause in majority of the contracts.

*Going forward, the ability of the company to successfully execute projects and recover contract proceeds in a timely manner, profitably scale up the operations of the company leading to sustained revenue growth and rationalization of its debt through efficient working capital management would be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Concentrated order book position

As on November 30, 2023, the unexecuted orders in hand of the company stood at Rs. 2,741 Mn, which is 1.74x of the income from contract of FY23, providing mid-term revenue visibility. The order book is concentrated and consists of various construction projects; however, remain primarily concentrated towards hydropower projects (~89%) and others include irrigation, bridge and road projects by entering into JVs. Furthermore, out of total order book of the company of Rs. 2,741 Mn as on November 30, 2023, ~75% is concentrated towards two hydropower projects. Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

##### High counter party risk

Revenue of RSC is generated via contracts from both government departments and private parties. The order book is primarily concentrated towards hydropower projects from private parties. Counter party risk remains high given the

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

projects are from private parties and revenue billing and payment recovery is dependent on availability of funds and liquidity of the private parties which may significantly impact RSC's financials.

**Working capital intensive nature of business**

The operations of the company are generally working capital intensive in nature. The company works with government departments and payments for contracts are received in a timely manner within a month after presenting the bill. Average collection period of the company improved to 30 days in FY23 from 44 days in FY22 on account of swifter debtor realization by the company during FY23. Also, average inventory days of RSC improved to 73 days in FY23 (PY: 131 days). Further, the credit period allowed to the company during FY23 was at 44 days. Total operating cycle of the company was 60 days in FY23 which improved from 119 days mainly due to improvement in inventory period. However, to cater the growing scale of operations, the company is likely to increase its reliance on the bank borrowings for working capital and inventory requirements for smooth operations.

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

Majority of the RSC's projects are tender-based private and government contracts wherein the company has to quote a bid. With multiple players active in the industry, RSC'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, RSC 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's ability to execute a project in timely manner would be led by its own operational efficiency and timely stage payments received from clients.

**Exposure to volatile interest rate**

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly 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.

**Key Rating Strengths****Experienced promoters and long track record of operations**

RSC is promoted by Mr. Gelje Lama, Managing Director, who has been leading the company since its inception in 1997. Mr. Lama has experience of more than three decades in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. He is responsible for planning business strategies of the company. Furthermore, the board is supported by an experienced team across various functions. The company has long track record of operations of over two decades in the construction of various infrastructure projects all over Nepal.

### Moderate financial risk profile marked by increase in TOI

RSC's TOI grew ~76% year-on-year to Rs. 1,579 Mn during FY23 boosted by execution of projects during the year. 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 declined to 10.09% in FY23 from 11.24% in FY22 amid increased administrative expenses. Despite, PAT margin of RSC improved slightly to 3.13% in FY23 as compared to 2.92% during FY22. Gross Cash Accruals (GCA) of the company increased to Rs. 112 Mn in FY23 from Rs. 70 Mn in FY22 mainly on account of increase in PAT and depreciation expense of the company.

### Moderate capital structure and debt service indicators of the company

Capital structure of RSC stood moderate with overall gearing ratio (including mobilization advance) of 1.79x as on FY23 which improved from 2.35x as on FY22 mainly on account of increase in net worth of the company with accretion of profits to the reserves and decrease in mobilization advance during FY23. Total debt of the company, which mainly comprises of hire purchase loans, mobilization advance & working capital borrowings decreased at the end of FY23 to Rs. 446 Mn from Rs. 470 Mn as on FY22. Also, total outside liability to total net worth and total debt to gross cash accruals remained moderate at 2.78x and 3.99x respectively as on mid-July, 2023 (3.50x and 6.73x respectively, as on mid-July, 2022). Furthermore, the interest coverage was adequate at 5.11x in FY23 showing improvement from 4.59x in FY22 aided by increase in PBILDT with increase in TOI.

### Analytical Approach

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

### About the Company

Ramechhap Sherpa Construction Private Limited (RSC) is a class "A" construction company of Nepal incorporated in year 1997 with its registered office based in Kathmandu, Nepal. The company is involved in hydropower projects, construction of roads, bridges, irrigation works etc. across Nepal. In addition to doing projects independently, RSC 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 Period	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	426	894	1,579
PBILDT Margin (%)	16.00	11.24	10.09
Overall Gearing (times)	2.47	2.35	1.79
Total Outstanding Liabilities/Tangible Net worth (times)	3.05	3.50	2.78
Interest Coverage (times)	3.94	4.59	5.11
Current Ratio (times)	3.20	1.82	1.62
Total Debt/Gross Cash Accruals (times)	9.39	6.73	3.99

A: Audited; UA: Unaudited

### 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	139.31	CARE-NP BB
Short Term Bank Facilities	Fund Based Limits	98.70	CARE-NP A4
Long Term/ Short Term Bank Facilities	Fund/Non-Fund Based Limits	1,583.10	CARE-NP BB/ A4
<b>Total</b>		<b>1,821.11</b>	

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#### About CARE Ratings Nepal Limited:

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