

D. and N. Builders Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	19.81	CARE-NP B [Single B]	Assigned
Long Term/ Short Term Bank Facilities	650.19	CARE-NP B/A4 [Single B/ A Four]	Assigned
Total Facilities	670.00 (Six Hundred Seventy Million Only)		

Details of 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' assigned to the short-term bank facilities of D. and N. Builders Private Limited (DNBPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of DNBPL are constrained by its declining financial performance coupled with concentration risk towards a single project, and stretched liquidity position. The ratings also factor in DNBPL's tender based nature of operations in highly competitive construction industry, risk of delay in project execution and timely recovery of contract proceeds, and exposure to volatile interest rate. The ratings, however, derive strengths from experienced promoter in the related field with long track record in execution of various construction work, moderate counter party risk, and escalation clause in majority of contracts.

Going forward, the ability of the company to successfully execute projects and recover contract proceeds in timely manner, manage healthy revenue growth to profitably scale up its operations amidst high level of competition, and maintain profitability margins without deteriorating its solvency and coverage indicators will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Declining financial performance trend amid slow execution coupled with concentration risk

DNBPL's Total Operating Income (TOI) has been continuously decreasing year-on-year for the past three years. TOI has decreased sharply by ~78% year-on-year in FY23 to Rs. 92 Mn from Rs. 409 Mn in FY22. This was mainly on account of lower execution of projects at hand as the same had declined in the last few years. Despite decrease in TOI, PBILDT margin of DNBPL increased to 24.21% in FY23 vis-à-vis 10.02% in FY22 on account of execution of higher margin contracts in FY23. However, PAT margin of the company decreased to 0.72% in FY23 which was 2.13% in FY22.

Similarly, unexecuted order book of the company was Rs. 1,770 Mn (share of DNBPL only) as on mid-January, 2024, which provides revenue visibility over the medium-term. However, one of the projects accounts for ~59% of total order book. Having concentration on single project links the company's performance on the timely execution of project which would be critical for the business prospects of the company and will also have a direct bearing on its margins and liquidity profile.

Stretched Liquidity position

DNBPL has stretched liquidity as reflected by the current ratio and quick ratio of 0.93x and 0.01x at the end of FY23. Inventory holding days was high in FY23 to around 1,064 days mainly due to decline in scale of operations in FY23 coupled with higher base of FY22. Inventory include yet to be billed job-in-hand. Creditors days have been on the higher side in

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

previous years as well and the same stood at 1,173 days in FY23 which increased from 257 days in FY22, and Total Outside Liabilities/ Total tangible net worth (TOL/TNW) stood high at 5.78x in FY23 (FY22: 6.66x).

Tender based nature of operations in highly competitive construction industry

The company receives its majority work orders from government departments and local authorities. All contracts are tender-based for which DNBPL has to participate in the tenders, wherein the company has to quote the bid and hence it has to face the risk of successful bidding for the same, which again comes with the risk of quoting at low price through e-bidding to sustain the competition. DNBPL enters into construction contracts either individually or through JV entities in order to meet eligibility criteria for these contracts.

There are numerous fragmented and unorganized players operating in this industry which makes the industry highly competitive and the ability of DNBPL to sustain its profitability margins and growth in future remain 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

Given the nature of projects awarded, DNBPL 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. Furthermore, 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

DNBPL 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. Higher interest rates than envisaged could result in squeezed margins of the company. Hence, funding taken by the company from BFIs is subject to volatile interest rate.

Key Rating Strengths

Experienced promoter in the related field with long track record in operations

DNBPL is promoted by Mr. Shree Ram Thakur, and Mr. Dipendra Kumar Thakur. Mr. Dipendra Kumar Thakur, Managing Director, has been leading the company since its inception in 2005, and has an experience of more than two decades in the field of construction contract business. Mr. Shree Ram Thakur, Director, is responsible for management of overall business operations on a day-to-day basis. Board of directors are further supported by an experienced team across various functions/ departments. The company has a long track record of almost two decades in construction of roads, bridge projects, drainage, irrigation consisting both small to large size projects and has executed several projects across the country in different terrains either individually or through its JV entities.

Moderate counter party risk and escalation clause in majority of contracts

Revenue of DNBPL is majorly generated via contracts from government departments including provincial and local bodies. The order book is primarily concentrated towards railways, road projects, and hospitals from government departments. Counter party risk remains moderate given the projects are from government departments. 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 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

D. and N. Builders Private Limited (DNBPL) is a class "C" construction company of Nepal which was incorporated on January 12, 2005, as Chaudhary Construction Company. It has both its registered office and head office in Janakpurdham Sub-Metropolitan, Dhanusa, Nepal. The company was later converted into Private Limited Company, and was named as D. and N. Builders Private limited on July 19, 2020. The company is mainly involved in construction of roads, hospitals, irrigation works, buildings, etc. along with reconstruction of buildings across Nepal.

Financial Performance

(Rs. In Million)

For the period ended/ as at mid-July	FY21 (A)	FY22 (A)	FY23 (UA)
Income from operations	416	409	92
PBILDT Margin (%)	8.99	10.02	24.21
Overall Gearing (times)	1.75	0.71	0.55
Interest Coverage (times)	3.06	3.33	3.15
Current Ratio (times)	0.84	0.91	0.93
Total Debt/ GCA	1.70	1.11	1.51

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	19.81	CARE-NP B [Single B]
Long Term/ Short Term Bank Facilities	Fund based/ Non-Fund Based Limit	650.19	CARE-NP B/A4 [Single B/ A Four]
Total		670.00	

Contact us**Analyst Contact**

Ms. Dristi Acharya
+977-1-4012628
dristi.acharya@careratingsnepal.com

Mr. Santosh Pudasaini
+977-9802353217
pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
+977 9818832909
achin.nirwani@careratingsnepal.com

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