

## Uma & Company Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.04 (Decreased from 21.46)	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	32.50 (Decreased from 36.75)	CARE-NP A4 [A Four]	Reaffirmed
Long Term/ Short Term Bank Facilities	1,141.80 (Decreased from 1,591.80)	CARE-NP BB -/A4 [Double B Minus/A four]	Reaffirmed
Total Facilities	1,180.34 (One Thousand One Hundred Eighty Million Three Hundred and Forty Thousand Only)		

*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 Uma & Company Private Limited (UCPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of UCPL continue to be constrained by its concentrated revenue base with low revenue visibility given the orderbook at hand is limited to a single project. The ratings also factor in the working capital intensive nature of operations, tender based nature of operations in highly competitive construction industry, and risk of delay in project execution. The ratings, however, continue to derive strength from experienced promoters and established track record in executing various construction works, low gearing profile, moderate counter party risk and presence of escalation clause in contracts.

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

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

##### Concentrated revenue base with low revenue visibility

The unexecuted order in hand of UCPL as on mid-January 2024 stood at Rs. 397 million, which is 1.4 times its income from contract of FY23 (FY refers to twelve-month period ending mid-July). However, the entire order book is limited to a single project, which exposes the company towards revenue concentration risk. Since revenue prospects is currently restricted to a single project, any delays in execution and subsequent postponements in receipt of contract proceeds will adversely impact the income profile of UCPL and weaken its debt coverage indicators. Although the company's total operating income (TOI) improved to Rs. 280 million in FY23 from Rs. 228 million in FY22, revenue visibility going forward remains low given the inherent challenges present with single source of revenue. Going forward, ability of the company to improve its orderbook structure by augmenting other projects is critical to sustain its operations beyond the current orderbook.

##### Working capital intensive nature of business

UCPL primarily works with various government departments and payments for the contracts are generally received only after the work certification process is completed and finalization of the bill is done. Lengthy certification processes normally lead to high work in progress and inventory levels. Consequently, in FY23, the collection period and inventory holding period

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

stood at 32 days and 57 days respectively. The company also enjoyed a high payable period of around 56 days from its suppliers, resulting in net operating cycle of around 33 days in FY23. Furthermore, retention deposit is deducted by the clients from running bills which gets refunded to the contractor only after completion of defect liability period, usually varying from twelve months to five years after successful execution of the contracted work indicating UCPL's need for reliance on external borrowings to manage its working capital requirements

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

Majority of the UCPL'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, UCPL'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 million, 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, UCPL 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.

### **Key Rating Strengths**

#### **Experienced promoters and established track record of operations**

UCPL is promoted by Mr. Basu Khadka who has been leading the company since its inception in 2010. Mr. Khadka has an experience of more than a decade in the field of construction business. He has served as a director in Bhugarba Cement Limited rated CARE-NP B-/A4 and Dirghayu Guru Hospital for 4 years and 3 years respectively. Mr. Dhurba Prasad Timalsina, director, has an experience of 20 years in construction business and Mr. Prem Prakash Dhakal, director, has an experience of 25 years in the field of construction. The company has established track record of over a decade in the construction of various infrastructure projects all over Nepal.

#### **Low gearing profile in FY23**

The capital structure of the company is moderate marked with low overall gearing ratio (with mobilization advance) of 0.43x at the end of FY23 which improved from 0.49x at the end of FY22 on account of improvement in net worth with accretion of profits to the reserves of the company. In FY23, TOL/TNW of the company stood less than unity at 0.77x and Total debt/GCA improved to 2.48x as compared to 3.13x in FY22. The current ratio of the company was moderate at 2.40x in FY23 which has improved from 1.72x in FY22 majorly on account of increased debtors and decreased creditors. The debt coverage indicators stood adequate with interest coverage ratio of 6.50x in FY23 amid relatively less utilization of fund-based limits.

#### **Moderate counter party risk and escalation clause in contracts**

Revenue of UCPL is generated majorly via contracts from government departments with the company having a track record of operations in construction works majorly linked to construction of airport related works. Counter party risk remains moderate given the projects are from government departments.

UCPL procures its construction materials mainly from the local vendors which exposes the company towards raw material price volatility risk. The risk is somewhat mitigated by the presence of escalation clauses in the contracts which insulates the company from any adverse fluctuation in construction material prices and labor expenses. This enables the company to pass on increase in raw material prices to its contractee. Ability of the company to pass on increased price burden to the other party on 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. Additionally, 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. Near term operating environment for construction companies, including YBPL, remains challenging and will remain a key monitorable aspect.

### About the Company

Uma & Company Private Limited (UCPL) is a Class "A" construction company in Nepal, incorporated on February 16, 2010, with registered office in Santinagar-34, Kathmandu, Nepal. UCPL is mainly involved in projects associated with airports and a few water supply projects, sewage and river training construction projects. In addition to doing projects independently, UCPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

### Financial Performance

(Rs. in Million)

For the period ended/ as at mid-July	FY21 (A)	FY22 (A)	FY23 (A)
Income from operations	415	228	280
PBILDT Margin (%)	9.43	10.39	8.97
Overall Gearing (times)	0.85	0.49	0.43
Interest Coverage (times)	4.88	3.65	6.50
Current Ratio (times)	1.79	1.72	2.40
Total Debt/ Gross Cash Accruals	3.20	3.13	2.48

A: Audited

### 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	6.04	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	32.50	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non-Fund Based Limit	1,141.80	CARE-NP BB -/A4 [Double B Minus/A four]
<b>Total</b>		<b>1,180.34</b>	

**Contact us****Analyst Contact**

Mr. Prachan Shrestha

+977-01-4012630

[prachan.shrestha@careratingsnepal.com](mailto:prachan.shrestha@careratingsnepal.com)

Mr. Santosh Pudasaini

+977-9802312855

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

**Relationship Contact**

Mr. Achin Nirwani

+977 9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

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