Jambudip Construction Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**1.33**	**CARE-NP B+ [Single B Plus]**	**Reaffirmed**
Short Term Bank Facilities	**10.50**	**CARE-NP A4 [A Four]**	**Reaffirmed**
Long Term/Short Term Bank Facilities	**888.17**	**CARE-NP B+/A4 [Single B Plus/A Four]**	**Reaffirmed**
Total Facilities	**900.00 (Nine Hundred Million Only)**		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JCPL continue to be constrained by small and fluctuating scale of operation, working capital intensive nature of the business marked by high inventory holding period in FY23 (FY refers to the twelve-month period ending mid-July). The ratings also factor in concentrated portfolio with low capital base, 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, moderate counter party risk and escalation clause in majority of the contracts.

Going forward, the ability of the company to profitably scale up its operations through diversification amidst high level of competition and manage its working capital requirements to support growth will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Small and fluctuating scale of operations with concentrated portfolio

JCPL has fluctuating total operating income (TOI) in last 3 years ending FY23 (Unaudited, refers to the twelve-month period ended as on mid-July). TOI grew by 43% year-on-year to Rs. 244 Mn in FY23 amid higher execution of contracts at hand. PBILDT margin of the company stood at ~5% in FY22 and FY23. In absolute amount, PBILDT of the company increased to Rs. 13 Mn in FY23 compared to Rs. 9 Mn in FY22. With decrease in depreciation expenses of the company, PAT margin improved by 113 bps to 2.11% in FY23. PAT of JCPL increased to Rs. 5 Mn in FY23 from Rs. 2 Mn in FY22.Gross Cash Accruals of the company stood modest at Rs. 10 Mn in FY23 (FY22: Rs. 8 Mn).

As on mid-January 2024, the unexecuted orders in hand of the company stood at Rs. 531 Mn, which is 2.17x of its income from contract of FY23. The order book is primarily concentrated towards building projects which exposes the company towards risk of sectoral concentration. Further, concentration of government orders exposes the company with risk related to allocation of fund or regulatory changes mainly in the Public Procurement Act and other related regulations. Timely completion of the projects, including JCPL's ability to regularly bill and realize projects under progress, would be critical for the business prospects of the company and also has a direct bearing on its margins.

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

Working capital intensive nature of business

JCPL primarily works with various government departments and payments for the contracts are generally received only after the work certification process is completed and bills have been finalized. Lengthy certification processes normally lead to high work in progress and inventory levels as evident by substantially high inventory holding period of 216 days at the end of FY23, albeit improved from 299 days at the end of FY22. Average collection period improved slightly to 41 days in FY23 from 50 days in FY22 as JCPL was able to timely realize its debtors. Consequently, operating cycle of the company stood at 98 days. 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 twelve months after successful execution of the contracted work indicating JCPL'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 JCPL'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, JCPL'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, JCPL 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

JCPL is promoted by Mr. Ram Bahadur Khatri and Mr. Sagar Khatri. Mr. Ram Bahadur Khatri, Managing Director, has more than 26 years of experience in construction projects with specialization in building work and manages overall projects and operation of the company. Mr. Sagar Khatri, Director has around 3 years of experience in administration and marketing department who oversees tender and administrative function of the company. Board of directors are further supported by an experienced team across various functions/ departments.

Moderate capital structure and debt protection metrics

Capital structure of the company is moderately leveraged marked by overall gearing ratio (incl. mobilization advance) of 1.22x as on mid-July, 2023 mainly on account of mobilization advance of Rs. 58 Mn in FY23. Likewise, TOL/TNW of the company stood relatively controlled at 2.81x in FY22 and FY23. Debt protection metrics also stood moderate with Total debt to GCA of 6.51x in FY23, although deteriorated from 2.79x in FY22 mainly due to increase in mobilization advance received by the company.

Moderate counter party risk and escalation clause in majority of the contracts

Revenue of JCPL is generated majorly via execution of contracts from government departments Counter party risk remains moderate given majority of the projects are from government departments. JCPL 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 majority of the contracts which insulates the company from any adverse fluctuation in construction material prices and labour expenses. This enables the company to pass on increase in raw material prices to its employer. 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. 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.

Analytical Approach

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

About the Company

Jambudip Construction Private Limited (JCPL), was first introduced in Nepal in the year 2006 as a "C" class Construction Company with registered office based in Basundhara, Kathmandu. The company is mainly involved in construction of buildings both government and private including commercial complex and health care center along with bridge work. JCPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of JCPL (consolidated) for last three years ending FY23 are given below:

(Rs. Million)

For the Period Ended / as at Mid-July,	FY21	FY22	FY23
	(12m, A)	(12m, A)	(12m, UA)
Income from Operations	176	171	244
PBILDT Margin (%)	8.11	5.23	5.18
Overall Gearing (times)	0.20	0.41	1.22
Total Outstanding Liabilities/Tangible Net worth (times)	3.10	2.81	2.81
Interest Coverage (times)	12.20	12.50	18.27
Current Ratio (times)	1.12	1.29	2.00
Total Debt/ Gross Cash Accruals (times)	0.82	2.79	6.51

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 Loans**	**1.33**	**CARE-NP B+ [Single B Plus]**
Short Term Bank Facilities	**Working Capital Loans**	**10.50**	**CARE-NP A4 [A Four]**
Long Term/ Short Term Bank Facilities	**Non-Funded Loans**	**888.17**	**CARE-NP B+/ A4 [Single B Plus/A Four]**
Total		**900.00**	

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About CARE Ratings Nepal Limited:

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