

## Rating Rationale

### Kankai International Builders Private Limited

#### Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1192.75	CARE-NP BB + [Double B plus]	Assigned
Short Term Bank Facilities	71.50	CARE-NP A4+ [A Four plus]	Assigned
Long Term Bank Facilities- Proposed	830.00	CARE-NP BB + [Double B plus]	Assigned
Short Term Bank Facilities- Proposed	53.50	CARE-NP A4+ [A Four plus]	Assigned
<b>Total Facilities</b>	<b>2147.75</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned Rating of ‘CARE-NP BB + (Double B plus)’ to the long term bank facilities and ‘CARE-NP A4+ (A Four Plus)’ to the short term bank facilities of Kankai International Builders Private Limited (KIBPL).

#### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KIBPL are constrained by tender based nature of business and high competition, working capital intensive operations and planned debt funded capex leading to deterioration in the debt coverage indicators in the medium term. The rating, however, derives strength from experienced promoters & management, established track record in executing diverse projects, increasing scale of operations and profits on consolidated basis; however, decline over the period as per FY18 (Prov, Standalone refers to the year ended mid-July 2018), moderate order book position with medium term revenue visibility and, ownership of sizeable equipment fleet and built-in escalation clause in majority of the contracts.

Ability of the company to successfully execute projects in time and recover contract proceeds and ability of the company to manage the growth and maintain profitability margins without deterioration in its financial risk profile will be the key rating sensitivities.

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

## **Detailed Description of the Key Rating Drivers**

### **Key Rating Weakness**

#### ***Tender based nature of business and high competition in the construction industry***

The company receives all its work orders from government departments. The contracts are tender-based and the revenues are dependent on the company's ability to bid successfully for these tenders. However, the promoters' long industry experience of 3 decades mitigates this risk to some extent. Also, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive and the ability of KIBPL to sustain its profitability margins remain crucial. Further, the business also remains dependent on stability in government policies and the fiscal position of the government.

#### ***Working capital intensive nature of business***

The operations of the company are working capital intensive in nature. KIBPL receives its orders mostly from the government departments; payments for the same are received within 1 month in general from the day of submission of the bill. The credit period extended by the suppliers of raw material is on the basis of negotiating power of the company. KIBPL also has high retention money due to the nature of the business (total retention money as on FY 18 (Prov) stood at Rs. 30 Mn) which leads to reliance of the company on bank finance to meet its working capital requirements. The average cash credit utilization of the company was at a high level of ~98% for the last 12 months ending mid-July 2018.

### **Key Rating Strength**

#### ***Experienced promoters & management team***

KIBPL is promoted by Mr. Ram Prasad Mainali and his family members having 97.6% of total shares, he has been leading the company since its inception in 1987 and has experience of more than 3 decades in the field of construction contract business. Mr. Mainali looks after day to day operations of the company and he is supported by experienced and professional team. KIBPL has received numerous awards and recognitions from leading industry associations including the Federation of Contractors' Association of Nepal (FCAN), Department of Inland Revenue, Bhadrapur, Jhapa, and Rastriya Banijya Bank.

#### ***Established track record in executing diverse projects including roads, bridges, building and irrigation and sanitation project***

KIBPL has an established track record of more than 3 decades in the construction of roads, bridges, water and sanitation projects, buildings and irrigation projects ranging from small size to large size projects and have executed several projects across country in different terrain in KIBPL and through its Joint venture

entities. The long track record has enabled the company to establish relations with its customers thereby resulting into repeat orders from the government departments.

***Moderate order book position with medium term revenue visibility and diversified Projects***

KIBPL has executed contracts with aggregate contract value of Rs. 4,485 Mn from construction of completed project till FY18 on consolidated basis since its inception. As on May 2018, the orders in hand are Rs. 2,948 Mn on consolidated basis (includes share of KIBPL only) and Rs. 754 million of orders on standalone basis. Due to government initiative towards the infrastructure projects the order book of the company is expected to increase in future. The order book of the company reflects revenue visibility for 2-3 years. The order book is diversified over roads, water supply & Sanitation and irrigation projects.

***Ownership of sizable equipment fleet, however, planned debt funded capex leading to deterioration in the debt coverage indicators***

KIBPL has built up adequate asset base to meet the requirement of its projects. The investments in the equipment/machineries of the company has increased by Rs. 45 Mn in FY17 and by Rs. 31 Mn during FY18 (Prov.) and endeavors continuous investment going forward. Efficient deployment of the resources and investment in machinery during the past years has helped in timely execution of projects and acquire new projects. The major machinery of the company includes Tipper/ Truck, building equipment set (Vibrator/ Mixer/ cutter etc.), Canal and irrigation equipment (pump sets, submersible pumps etc.), Excavator with rock breaker, Loader, Roller etc. which are essential for the kind of construction work the company is engaged into. However, KIBPL has planned for major debt funded capex during FY19 which leads to deterioration in debt coverage indicators going forward.

***Increasing scale of operations and profits on consolidated basis; however, decline over the period as per FY18 (Prov, Standalone)***

The financial risk profile of the company on the consolidated basis is marked by increasing scale of operations and profit during FY17 leading to improvement in the debt service indicators. The total revenue of the company increased by 99% to Rs.1247 Mn in FY17 over FY16 and the PBILDT of the company has increased by 96% in FY17 compare to FY16 on the back of execution of the works in hand. The consolidate PAT of the company also increased substantially during FY17 to Rs. 42 Mn due to increase in the PBILDT on back of increase in the operations of the company. The interest coverage was also improved from 5.51x in FY16 to 6.90x in FY17.

However, as per the provisional report of the company (Standalone basis), during FY18, the PBILDT and PAT of the company declined to Rs. 69 Mn and Rs. 16 Mn respectively from Rs. 79 Mn and Rs. 19 Mn respectively in FY17, on back of decline in the total revenue from Rs.543 million in FY17 to Rs. 494 million during FY18 mainly due to lower execution of work orders on standalone basis. The interest

coverage ratio of the company also declined to 4.41x during FY18 (4.95x during FY17 (Prov.)) on back of decline in PBILDT.

**Escalation clause in majority of the contracts**

KIBPL procures its raw materials from the local vendors, which has risk of volatility in raw material prices. The company has inbuilt price escalation clauses in contracts which has more than 18 months’ period (which comprise majority of contract) to insulate the company from any adverse fluctuation in raw material prices and labor expenses. This enables the company to pass on the increase in raw material prices to its customers. Ability of the company to pass on increased price burden to the customers in a timely manner and maintain profitability margins is critical from the credit prospective.

**About the Company**

Incorporated in July 26, 1987 and based in Surunga, Jhapa, M/s Kankai International Builders Pvt. Ltd. (KIBPL) is a mid-scale construction company having major promoter Mr. Ram Prasad Mainali and his family holding 97.6% of total shares, with over 3 decades of experience in civil construction. The company is in the business of civil construction of Roads, Bridges, Water Supply & Sanitation, Canals, etc across Nepal and mostly executes Government contracts. To meet eligibility criteria for different projects, the company enters into Joint ventures (JV) with other companies. The consolidated revenue of the company includes revenue from the JV entities in the proportion of the company’s stake in the JV.

**Analytical approach:**

CRNL has analyzed KIBPL’s credit profile by considering the consolidated financial statements (comprising KIBPL and its joint venture entities related to the construction works) owing to financial and operational linkages between KIBPL and the JV entities.

Brief Consolidated Financials (Rs. Million)	FY15	FY16	FY17
	(Audited)	(Audited)	(Audited)
Income from Operations	554	625	1247
PBILDT	20	32	72
PAT	11	17	42
Overall Gearing	0.97	1.65	1.20
Interest coverage (times)	7.82	5.51	6.90

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**Annexure 1: Details of the Facilities**

<b>Nature of the Facility</b>	<b>Type of the Facility</b>	<b>Amount (Rs. Million)</b>	<b>Rating</b>
Long Term Bank Facilities	Hire Purchase Loan	92.75	CARE-NP BB+
Short Term Bank Facilities	Over Draft	25.00	CARE-NP A4+
Long Term Bank Facilities	Bank Guarantee	1100.00	CARE-NP BB+
Short Term Bank Facilities	Letter of Credit	46.50	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Letter of Credit	33.50	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Over Draft	20.00	CARE-NP A4+
Long Term Bank Facilities (Proposed)	Hire Purchase Loan	170.00	CARE-NP BB+
Long Term Bank Facilities (Proposed)	Bank Guarantee	660.00	CARE-NP BB+
<b>Total</b>		<b>2147.75</b>	