

Rating Rationale

Kankai International Builders Private Limited

Rating

Facility/Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,022.75	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	125.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Total Facilities	2147.75		

Details of Facilities in Annexure 1

CARE Ratings Nepal Ltd. (CRNL) has reaffirmed rating of ‘CARE-NP BB+’ to the long term bank facilities and ‘CARE-NP A4+’ to the short term bank facilities of Kankai International Builders Private Limited (KIB).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KIB is constrained by tender based nature of business and high competition and working capital intensive operations. The ratings however, derives strength from experienced promoters and management, established track record in executing diverse projects, comfortable financial risk profile and debt coverage indicators. The rating also factors in moderate order book position with medium term revenue visibility, ownership of sizeable equipment fleet and escalation clause in majority of 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.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Tender based nature of operations in high competitive intensity of the construction industry

The company receives all its work orders from government departments constituting 100% of its order book position. All these 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 KIB to sustain its profitability margins remain crucial.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature. KIB receives its tenders from the government departments, payments for the same are received within 1 month generally from the day of

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

submission of the bill. The credit period extended by the suppliers of raw material is on the basis of negotiation power of the company. KIB also has high retention money due to the nature of the business which is Rs. 36.24 Mn in FY19 (31.51 in FY18) leading to reliance of the company on bank finance to meet its working capital requirements. Additionally, due to delay in approval of bills by government departments, KIB has been facing some delay in sales realization which has stretched the cashflow of the company. Due to this reason, average working capital utilization of the company was at a high level of ~95% of sanctioned limit during FY19. Further, stretch in working capital could impact the debt servicing capability of the company.

Key Rating Strengths

Experienced promoters & management team

KIB 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. The company has executed various road projects, bridges, water and sanitation projects, buildings and irrigation & river training projects in Nepal for the past 30 years. KIB has received numerous awards and recognitions in the past from leading industry associations including the Federation of Contractors' Association of Nepal (FCAN), Department of Inland Revenue, Bhadrapur, Jhapa, and Rastriya Banijya Bank Limited.

Established track record in executing Roads, Bridges, Building and Irrigation and Sanitation Project

KIB 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 KIB and through its Joint venture entities.

Moderate order book position with mid-term revenue visibility and diversified projects

KIB has executed government construction contracts across various categories in the past. As on July 2019, the orders in hand are Rs. 5271 Mn on consolidated basis (includes share of KIB only) and Rs. 646 million 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 with diversification over roads, water supply, sanitation and irrigation projects.

Ownership of sizable equipment fleet

KIB 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. 74.54 Mn in FY18 and by Rs. 104.01 Mn during FY19 (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.

Comfortable financial risk profile and debt coverage indicators

KIB posted sales of Rs. 562 Mn in FY19 (prov) on a standalone basis as compared to Rs. 495 Mn in FY18 posting a growth of 13.54%. Increase in sales was mainly due to completion of the contracts in hand. Further, KIB posted growth in PBILDT by 17.43% in FY19 from Rs. 73 Mn in FY18 to Rs. 86 Mn in FY19 with PBILDT margin of 15.29% against 14.78% in FY18. Total Debt to GCA increased from 3.20x in FY18 to 3.55x in FY19 on the back of additional long-term and short-term loan availed by the company. However, the interest coverage ratio improved to 4.82x in FY19 (4.35x in FY18) due to higher increase in PBILDT as compared to increase in interest cost. Overall gearing ratio and Total Debt to GCA of the company increased to 1.81x at the end of FY19 (1.64x at the end of FY18) and 3.55x at the end of FY19 (3.20x in FY18) respectively.

On the consolidated level, KIB posted sales of Rs. 1,330 Mn in FY18 as compared to Rs. 1247 Mn in FY17 posting a growth of 6.65%. However, PBILDT decreased by 7.19% in FY18 from Rs. 110 Mn in FY17 to Rs. 102 Mn in FY18 with PBILDT margin of 7.68% against 8.82% in FY17. Total Debt to GCA increased from 2.28x in FY17 to 2.51x in FY18 due to decrease in PBILDT.

Escalation clause in majority of the contracts

KIB 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

KIB is a private limited company, incorporated in July 26, 1987. KIB 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. The consolidated revenue of the company includes revenue from the standalone company and revenue from the JV entities in the proportion of the JV stake.

Analytical approach:

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

Brief Consolidated Financial Performance during the last 3 years ending FY18 is as follows:

(Rs in Million)

For the year ended Mid July (Consolidated)	FY16(A)	FY17(A)	FY18(A)
Income From Operations	625	1,247	1,330
PBILDT	56	110	102
PAT	17	42	31
Overall Gearing (times)	1.65	1.20	0.90
Interest Coverage (times)	5.51	6.90	5.37

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	180.36	CARE-NP BB+
Long Term Bank Facilities (Proposed)	Term Loan	82.39	CARE-NP BB+
Long Term Bank Facilities	Bank Guarantee	1,355.00	CARE-NP BB+
Long Term Bank Facilities (Proposed)	Bank Guarantee	405.00	CARE-NP BB+
Short Term Bank Facilities	Overdraft	53.00	CARE-NP A4+
Short Term Bank Facilities	Letter of Credit	2.00	CARE-NP A4+
Short Term Bank Facilities (Proposed)	Letter of Credit	70.00	CARE-NP A4+
Total Bank Facilities		2,147.75	