

Rating Rationale
Aashirbad Nirman Sewa Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	43.45	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	853.06	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	896.51		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BB’ assigned to the long term bank facilities and ‘CARE-NP A4’ assigned to the short term bank facilities of Aashirbad Nirman Sewa Private Limited (ANS).

Analytical approach:

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

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANS continues to be constrained by small scale of operations with geographically concentrated order book position, low profitability margins and tender based nature of operations in highly competitive construction industry. The rating is also constrained by working capital intensive nature of business, planned debt funded capital expenditure and exposure to volatile interest rates. The ratings, however, derive strength from experience of promoters in related fields, moderate track record in executing diversified construction works and moderate order book position with mid-term revenue visibility. The ratings also factor in financial risk profile marked by growth in the revenue, profitability and satisfactory debt service coverage indicators in FY19 (Unaudited, refers to 12 months’ period ended mid-July 2019), moderate counter party risk and 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 healthy revenue growth and maintain profitability margins without deterioration in its financial risk profile will be key rating sensitivities.

Impact of Covid-19 on the business of the company

The outbreak of Coronavirus disease 2019 (Covid-19) has affected Nepal as well. Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 halting operations of most of the organizations and slowing down of the economic activities. The construction activities of the company were also subdued on account of the lockdown. Also, since construction activities in Nepal usually takes momentum in

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

second half of the financial year, it may have a negative impact on the revenue, profitability and debt service indicators of the company. The Central Bank of Nepal has provided an extension for the repayment of debt obligations and rebate in interest rate by 2% for the fourth quarter ending mid-July 2020. The company's ability to achieve its projected revenue, maintain profitability margins and liquidity position will be key rating consideration.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Small scale of operations with geographically concentrated order book position and low profitability margins

The operating income stood relatively smaller albeit grown at the CAGR of ~79% from Rs. 45 Mn in FY15 to Rs. 460 Mn in FY19 on consolidated basis. The entire operations of the company and its order book are concentrated mainly in the eastern regions of Nepal and in road projects which accounts for 42% of the total order book. PBILDT margin of the company was relatively low during FY15 to FY19 primarily due to low margin contracts. Further, on account of lower PBILDT margin, PAT margin also remained lower in the range of 3% to 4% during the said period.

Tender based nature of operations in highly competitive construction industry

The company receives its work orders from government departments. All government contracts are tender-based 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 a low price to sustain competition. Also, the promoter's reasonable industry experience in related field mitigates risk of competition to some extent. Further, the business also remains dependent on stability in government policies and fiscal position of the government.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature as company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bill is done. ANS maintained construction materials as an inventory for around 1 to 2 months. These factors lead to reliance of the company on bank finance to meet its working capital requirements. Accordingly, the company has high utilization of its working capital loans given capital intensive nature of operations and small quantum of working capital loans.

Planned debt funded capital expenditure

The company has been making regular investments to expand its infrastructure facilities in the past and expected to continue in future. The purchase of fixed assets was mainly funded through bank finance without any infusion of equity resulting in increase of debt component. Further, it is expected that the company will take additional loan for purchase of equipment/machineries for the new projects proposed to be undertaken in future.

Key Rating Strengths***Experience of promoters in the related fields***

ANS is being promoted by Mr. Keshar Kumar Budathoki, managing director, has been leading the company since its inception and has long experience of 21 years in the field of construction business. He is responsible for overall project management, budgeting and project execution of the company. Further, the board is supported by an experienced team across various functions.

Moderate track record in executing diversified construction works

ANS has an established track record of over 5 years in the construction of roads, buildings, irrigation projects, drainage, canals, embankment works etc. mainly small size projects and have executed several projects mainly in Eastern Region of Nepal either individually or through its Joint Venture (JV) entities.

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

As on mid- June 2020, the orders in hand of the company are Rs. 950 Mn. The order book of the company reflects medium term revenue visibility for the next 1 to 2 years. The order book is diversified over various projects such as building works, irrigation works, bridge works, airport works and road works received from various government authorities. Timely completion of the projects and thereby increase its scale of operations would be critical from the credit perspective for ANS.

Financial risk profile marked by growth in the revenue, profitability and satisfactory debt service coverage indicators

Financial risk profile of the company on the consolidated basis is comfortable with increase in scale of operations and moderate cash accruals during FY19. Total revenue of the company increased significantly by ~138% over FY18 on back of increase in execution of the contracts in hand. PAT margin improved from 3.58% in FY18 to 4.08% in FY19 due to increase in PBILDT which was partially offset by increase in depreciation expense and interest expenses. Also, total debt to gross cash accruals and interest coverage was comfortable at 1.90x and 8.61x respectively in FY19.

Moderate counter party risk

Revenue of ANS is generated from government contracts mainly related to road works, building works, irrigation works, bridge works, airport works etc. Payment of dues are generally realized within 1 month. The counter party risk is moderated by the fact that contracts are obtained from government departments and it has been making timely payment to the company in past.

Escalation clause in majority of the contracts

The company has inbuilt price escalation clauses in majority of contracts in order to insulate 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 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 credit perspective.

About the Company

Aashirbad Nirman Sewa Private Limited incorporated in March 03, 2015, having registered office in Triyuga, Udayapur, is a small-scale construction company in Nepal. The company is promoted by Mr. Keshar Kumar Budhathoki holding 51% of total shares. The company has been involved in construction projects such as such as building works, road works, irrigation works, water supply works, airport works etc. across Nepal. In addition to doing projects individually, ANS also enters into JV with other companies in order to meet the eligibility criteria for different construction projects.

Brief consolidated financials of ANS for last three years ending FY19 are given below:

(Rs. Million)

For the year ended Mid July	FY17	FY18	FY19
	(Audited)	(Audited)	(Provisional)
Income from Operations	114	194	460
PBILDT	7	14	33
PAT	5	7	19
Overall Gearing (times)	1.27	1.19	1.15
TOL/ TNW (times)	2.23	4.58	3.15
Interest Coverage (times)	8.10	5.70	8.61

<p>Analyst Contact Mr. Sakar Khadka sakar.khadka@careratingsnepal.com Tel No.: +977-01-4445473</p>	<p>Group Head Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4445474</p>	<p>Relationship Contact Mr. Sajan Goyal sajan.goyal@careratingsnepal.com Tel No.: 9818832909/+977-01-4445472/3/4</p>
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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	43.45	CARE-NP BB
Short Term Bank Facilities	Working Capital Loan	5.00	CARE-NP A4
Short Term Bank Facilities	Non-Funded Loan	800.00	CARE-NP A4
Short Term Bank Facilities	Non-Funded Loan (Proposed)	48.06	CARE-NP A4
Total		896.51	