

Rating Rationale

A. One Builders Private Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	17.61	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	203.80	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	668.59	CARE-NP BB/ A4 [Double B / A Four]	Assigned
Total Facilities	890.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BB’ to the long term bank facilities and ‘CARE-NP A4’ to the short term bank facilities of A. One Builders Private Limited (AOBP).

Analytical approach:

CRNL has analyzed AOBP’s credit profile by considering the standalone financial statements.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AOBP are constrained by short track record of operations, high counter party risk, stretched liquidity ratios and its presence in highly competitive construction industry coupled with tender based nature of operations. The rating is also constrained by exposure to volatile interest rates.

The ratings, however, derive strength from experienced promoters in construction field, moderate though concentrated order book position, moderate financial risk profile marked by growing scale of operations, moderate capital structure and debt service coverage indicators and escalation clause in majority of the contracts.

Going forward, the ability of the company to profitably scale up its operations amidst high level of competition and manage its working capital effectively considering high funding requirements to support growth will be crucial and act as the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Short track record of operations and low net-worth base

AOBP started operations from August 06, 2015 and has less than 6 years of track record of operations; however, the experience of the promoters in the construction industry partially offsets this risk. The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low capital base of Rs. 20 Mn. as on mid-July, 2020. Furthermore, due to the relatively short

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

track record of the company in construction field, the company's ability to improve its order book position and revenue profile in the light of competitive nature of industry remains crucial.

High counter party risk

Revenue of AOBP is generated via execution of contracts of government departments on subcontract basis and also contracts of private entities received directly. Majority of the contracts of the company are from private parties which stood at ~85% of the outstanding order value. This makes AOBP susceptible to adverse changes in financial risk profile and liquidity position to its customers.

However, average collection period of the company stood moderate at 32 days at the end of FY20 (vis-à-vis 65 days at the end of FY19). Further, in construction business, as work done by the company needs to be verified by the consultants/ engineers beforehand in order to raise the bill to the concerned client, collection period generally remains around 1-2 months.

Stretched liquidity ratios

Though the working capital cycle appears to be moderate, the liquidity ratios (current ratio and quick ratio) of the company stood stretched which stood below unity at the end of FY20. This is primarily because the company receives a payable period of around one and half month from its suppliers; while on the other hand it normally realizes from its customers within a month. The higher credit period from suppliers resulted into low operating cycle in last 3 financial years. Despite having low operating cycle, the company's dependence on bank borrowings is high to meet its working capital requirements though utilization remained moderate against the sanctioned working capital borrowings.

Tender based nature of operations in highly competitive construction industry

The company mainly caters to orders received from various Government entities and other Government establishments either directly or on sub-contract basis. The high concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. The tender-based business is characterized by intense competition and the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, the business also remains dependent on stability in government policies and fiscal position of the government.

Risk of delay in project execution

AOBP's business is susceptible to the financial loss arising out of delay in project execution, as generally, there is a penalty clause for delay in contract execution. However, AOBP has relied on the experience of its management team with strong project execution skills which has enabled the company to build satisfactory standing in the industry as indicated by the repeat orders awarded by its clients.

Key Rating Strengths***Experienced promoters in the related fields***

AOBP is being promoted by Mr. Bhakta Bahadur Lama, Chairman, who has been leading the company since its inception from August 2015. He manages overall projects executed by the company and business development of the company. The promoters of the company have considerable experience in construction business mainly in airport works on individual level and through AOBP's projects. Further, the board is supported by an experienced team across various functions.

Moderate though concentrated order book position with mid-term revenue visibility

As on March 15, 2021, the unexecuted orders in hand of the company stood at Rs. 1,657 Mn. Also, the present order book to FY20 revenue is around 3.00x which provides revenue visibility in medium term. The tenure of the orders undertaken by the company is up to 30 months. However, approximately 80% of the order book is also concentrated with single large order of the unexecuted orders. Hence effective and timely execution of the orders has a direct bearing on the margins attained.

Moderate financial risk profile

For the period FY18-FY20 (Audited, refers to 12 months' period ended mid-July 2020), AOBP's total operating income grew from Rs. 65 Mn. in FY18 to Rs. 551 Mn. in FY20 reflecting a compounded annual growth rate of around 104%. The growth in revenue of the company was mainly in FY20 due to execution of high value single project of Rs. 954 Mn (airport projects). Profitability margins of the company are directly associated with technical aspect of the contract executed. The contracts which are generally technical and complex in nature fetched better profitability margins. In the past 2 financial years, the PBIDLT margin of the company remained range bound and PAT margin remain stable over the years.

The capital structure of the company is moderate marked by debt equity ratio of 0.66x and overall gearing ratio (including mobilization advance) of 2.44x at the end of FY20. Until FY19, AOBP did not avail any debt for financing its operations, however with growth in operations in FY20 both term debt and working capital loans were availed by the company. Interest coverage ratio of the company was comfortable at 7.97x in FY20 (vis-à-vis 27.23x in FY19). Interest coverage ratio declined in FY20 mainly on account of increase in interest expenses due to increase in borrowings of the company taken to support the growing scale of operations. As on July 15, 2020, TOL/ TNW of the company shown marginal improvement and stood at 4.47x over previous balance sheet date due to increase in net-worth base attributed to retention of profits. Total debt/ GCA of the company stood moderate at 3.48x at the end of FY20.

Escalation clause in majority of the contracts

The company has inbuilt price escalation clauses in majority of contracts (both government and private 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

A. One Builders was incorporated on August 06, 2015 as a sole proprietorship firm which was later converted into private limited company as A. One Builders Private Limited (AOBP) on November 23, 2018. It is a Class-D construction company of Nepal with registered office based in Kathmandu, Nepal. In addition to doing projects independently, AOBP also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of AOBP (Standalone) for last three years ending FY20 are given below:

For the year ended Mid July	(Rs. Million)		
	FY18 (Audited)	FY19 (Audited)	FY20 (Audited)
Income from Operations	65	342	551
PBILDT Margin (%)	7.20	4.18	6.94
Overall Gearing (times)	0.48	2.44	2.44
Total Outstanding Liabilities/Tangible Net worth (times)	11.07	4.68	4.47
Interest Coverage (times)	23.13	27.23	7.97
Current Ratio (times)	1.06	2.01	0.84
Total Debt/ Gross Cash Accruals (times)	0.69	6.44	3.48

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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 Loans	17.61	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	203.80	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	668.59	CARE-NP BB/ A4
Total		890.00	