

## Rating Rationale

### Shiva Shakti Infra Developers Private Limited

#### Rating

Facility	Amount (Rs. In Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	179.22	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	20.00	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	3,800.78	CARE-NP BB-/ A4 [Double B Minus / A Four]	Assigned
<b>Total Facilities</b>	<b>4,000.00</b>		

*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 Shiva Shakti Infra Developers Private Limited (SSID).

#### **Analytical approach:**

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

#### **Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of SSID are constrained by small and fluctuating scale of operations, leveraged capital structure, working capital intensive nature of business and its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings are also constrained by exposure to volatile interest rates and risk of delay in project execution.

The ratings, however, derive strength from experienced promoters and established track record of operations, healthy order book position though geographically concentrated, 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 amidst high level of competition and manage its working capital requirements to support growth will be crucial and act as the key rating sensitivities.*

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

##### **Key Rating Weaknesses**

##### ***Small and fluctuating scale of operations***

Despite being operational for over 2 decades, the scale of operations has remained small marked by a total operating income (TOI) and gross cash accruals of Rs. 295 Mn. and Rs. 36 Mn. respectively during FY20 (Audited, refers to 12 months’ period ended mid-July 2020). The ability of the company to scale up to larger-sized contracts having better operating margins is constrained by its comparatively low TOI.

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

Furthermore, company's total operating income has been fluctuating over the past years (FY17-FY20). TOI has registered a decline on y-o-y basis in FY18 and registers a growth in FY19 which were further impacted by Covid-19 lockdown resulted again decline in revenue during FY20.

***Below averages financial risk profile***

The capital structure of the company stood leveraged marked by debt equity ratio and overall gearing ratio (including mobilization advance) of 2.34x and 4.60x respectively at the end of FY20. Overall gearing ratio deteriorated in FY20 compared to FY19 mainly on account of increase in long term loan for the procurement of fixed assets. Though, the interest coverage ratio stood moderate at around 2.75 times in the last three financial years; however, total debt to GCA has been deteriorating on y-o-y basis in last 3 years and stood high at above 10x for FY20.

Profitability margins of the company are directly associated with technical aspect of the contract executed. In FY20, the PBIDLT margin of the company improved and stood at around 21% on account of executed better margins contracts. However, high dependency on external funding and depreciation expenses restricting PAT margin which was ranging bound from 1% to 2% from FY17 to FY20.

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

The company has working capital intensive nature of operations primarily on account of high inventory holding. The company has high inventory holding as it has to execute orders at different sites and billing for the same is done on the basis of work completion & the same is required to be approved by the respective employer. This leads to classify completed work as work-in-progress.

The company works with government departments either directly or through subcontract basis. Payments for government contracts are received in a timely manner after presenting the bill. Payment is generally received within 45 days from the date of billing. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

***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.

***Planned debt funded capital expenditure***

The company has been making regular investments in construction equipment / machineries to increase its assets base for the smooth execution of its projects. Further, it is expected that the company would take

additional borrowings for purchase of equipment/machineries which would lead to deteriorate the gearing levels in the medium term.

***Risk of delay in project execution***

SSID'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, SSID 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 and established track record of operations***

SSID was promoted by Mr. Babu Ram Pathak and his two sons and has established track record of operations of over 2 decades in construction of road, buildings and river training works. Mr. Surendra Pathak, Managing Director and son of Mr. Babu Ram Pathak, has work experience of 13 years in field of construction business, manages company's overall operation. By virtue of long experience of the promoters; the company has been able to attract experienced professionals from the industry, who adequately support the directors.

***Healthy order book position though geographically concentrated***

The unexecuted order book of the company as on April 18, 2021 stood at Rs. 2,442 Mn which is approximately 8.29 times of its total operating income for FY20, thereby giving mid-term revenue visibility. The tenure of the orders undertaken by the company is up to 18 months. However, the order book is concentrated towards few large orders; hence, effective and timely execution of the orders has a direct bearing on the margins attained. Furthermore, given majority of projects are geographically concentrated, the company is also exposed to geographical concentration risk like regional disturbances, natural disasters etc.

***Moderate counter party risk***

Revenue of SSID is generated via contracts only from government departments through tender and subcontract basis. Average collection period of the company stood at 100 days at the end of FY20 (vis-à-vis 65 days at the end of FY19). Though the company has high collection period; however, the counter party risk is moderated by the fact that contracts are obtained from government departments.

***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

Shiva Shakti Nirman Sewa was incorporated on August 10, 1999 as a sole proprietorship firm which was later converted into private limited company as Shakti Infra Developers Private Limited (SSID) on July 22, 2018. It is a Class-A construction company of Nepal with registered office based in Makwanpur, Nepal. In addition to doing projects independently, SSID also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of SSID (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	216	309	295
PBILDT Margin (%)	17.52	14.10	20.67
Overall Gearing (times)	2.11	4.29	4.60
Total Outstanding Liabilities/Tangible Net worth (times)	4.02	6.36	5.98
Interest Coverage (times)	2.87	2.79	2.66
Current Ratio (times)	1.08	1.29	1.94
Total Debt/ Gross Cash Accruals (times)	4.72	7.74	11.13

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#### Disclaimer

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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	179.22	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loans	20.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	3,113.00	CARE-NP BB-/ A4
Long Term/ Short Term Bank Facilities (Proposed)	Non-Funded Loans	687.78	CARE-NP BB-/ A4
<b>Total</b>		<b>4,000.00</b>	