

Aashirbad Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities – Term Loan	145.00 (Increased from 43.45)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities- Working Capital Loan	5.00	CARE-NP A4 [A Four]	Reaffirmed
Long Term/Short Term Bank Facilities- Non-Funded Loan	1500.00 (Increased from 843.95)	CARE-NP BB/A4 [Double B/A Four]	Reaffirmed
Total Bank Facilities	1,650.00 (One Billion Six Hundred and Fifty Million)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (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 Aashirbad Nirman Sewa Private Limited (ANS).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANS continues to be constrained by its small scale of operations with geographical concentrated order book position, tender based nature of operations, planned debt funded capital expenditure and exposure to volatile interest rates. The ratings are also constrained by working capital intensive nature of business, leveraged capital structure & modest debt service coverage indicators and risk of delay in project execution.

The ratings, however, continues to derive strength from experienced promoters and moderate track record in execution of various construction work, moderate order book position, 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 while successfully executing the projects on time and managing 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 scale of operations with geographically concentrated order book position

The operating income stood relatively smaller albeit has grown at the CAGR of ~63% from Rs. 28 Mn in FY16 to Rs. 201 Mn in 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 capital base of Rs 30 Mn. as on mid-July 2020 and total operating margin of Rs 193 Mn. in FY21 (based on provisional results). The small scale of operations in a competitive industry limits the pricing power and benefits of economies of scale.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

The entire operations of the company and its order book are concentrated mainly in the eastern regions of Nepal. Attributed to same, the company is also exposed to geographical concentration risk like natural disasters, regional execution challenges related to local disturbances towards execution of contract etc.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature. ANS primarily works with the government departments and payments for the contracts are received generally within a month. ANS maintained construction materials as an inventory for around 1 month. The credit period which is normally around 30-45 days, can be extended by suppliers of raw materials on the basis of negotiation power of the company. Retention money is deducted by the client from running bills which will get refunded to the contractor after certain period, usually 1 year, on successful execution of contracted work. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

Below Average financial risk profile

PBILDT margin of the company was relatively low and remained almost stable at around 11.70% in last 2 financial years (FY19 & FY20). PBIDLT margin shown an improvement in FY 21 (based on provisional results) on account of execution of better margins contracts. Increasing scale of operations led to higher PBIDLT coupled with limited increase in financial cost has increased PAT and PAT margin in FY20 over previous year.

As on Mid-July 2021, the capital structure of the company stood leveraged marked by overall gearing (including mobilization advance) of 2.07x on account of high levels long term debt due to purchase of construction equipment with the support of debt for execution of contracts. Despite increase in debt levels on y-o-y basis in the last 3 years (FY19-FY21), the overall gearing has shown an improvement during the said period, on account of infusion in share capital coupled with retention of profits leading to higher net worth base.

Debt coverage indicators of the company stood satisfactory, marked by total debt to gross cash accruals (GCA) and interest coverage of below 5x and above 4x respectively in last two FYs (FY20 & FY21)

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.

Planned debt funded capital expenditure

The company has been making regular investments to expand its execution capabilities in the past and expected to continue in future. The investment in equipment/ machineries was Rs. 75 Mn in FY19 & FY20. The purchase of fixed assets was mainly funded through bank finance with infusion of equity of 20 Mn and balance from debt component. However, the company has no plan to take additional loan for purchase of equipment/machineries in the upcoming years.

Risk of delay in project execution

ANS'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, ANS 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 moderate track record of operations***

ANS is promoted by Mr. Keshar Kumar Budhathoki and has been leading the company since its inception in 2015 and has long experience of 21 years in the field of construction business. Similarly, other directors of the company have reasonable experience in construction contract business. Board of directors are further supported by an experienced team across various functions.

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

The unexecuted order book of the company as on mid- July 2021 remained at Rs. 1,448 Mn (share of ANS in joint ventures). The order book of the company reflects short to medium term revenue visibility and current order is around 4 times of FY21 total operating income. The tenure of the orders undertaken by the company is up to 48 months. The order book is diversified over various projects such as building works, irrigation works such as works relating to head works, canals, embankment, drain, bridge works, airport works and road works received from various government authorities. Most of the orders being executed are of fixed time in nature and hence effective and timely execution of the orders has a direct bearing on the margins attained.

Escalation clause in majority of the contracts

The company has inbuilt price escalation clauses in majority of contracts from government departments in order to insulate the company from any adverse fluctuation in raw material prices and labour expenses. Any changes in price have to be informed beforehand and mutually decided between both parties. 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 the credit perspective.

Analytical approach:

CRNL has analyzed the company's credit profile by considering the standalone financial statements.

About the Company

Aashirbad Nirman Sewa Private Limited (ANS) was incorporated on March 3, 2015 as a Class-D construction company of Nepal with registered office based in Biratnagar, Morang, Nepal. In addition to doing projects independently, ANS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance: Standalone

(Rs. Million)

For the year ended Mid July	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Income from Operations	98	201	193
PBILDT Margin (%)	11.66	11.79	15.70
Overall Gearing (times) inc. Mobilization Advance	2.43	2.27	2.07
Total Outstanding Liabilities/Tangible Net worth (times)	6.43	3.03	3.07
Interest Coverage (times)	2.96	5.15	4.07
Current Ratio (times)	1.09	1.75	1.95
Total Debt/ Gross Cash Accruals (times)	4.34	4.66	4.30

A: Audited, UA: Unaudited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	Term Loans	145.00	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	5.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	1500.00	CARE-NP BB/ A4
Total		1,650.00	

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About CARE Ratings Nepal Limited:

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