

Aattreya Nirman Sewa Private Limited

Ratings

Facility	Amount (Rs. In Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	27.06	CARE-NP B+ [Single B Plus]	Assigned
Short Term Bank Facilities	35.00	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	767.94	CARE-NP B+/A4 [Single B Plus/ A Four]	Assigned
Total Facilities	830.00 (Eight Hundred and Thirty Million)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B+' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Aattreya Nirman Sewa Private Limited (ANSP).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANSP are constrained by modest scale of operations, low order book position, weak financial risk profile, 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 in related fields, moderate track record in executing various construction works, 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 recover contract proceeds will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Modest scale of operations

Despite being operational for over 1.5 decades, the scale of operations has remained small marked by a total operating income (TOI) and gross cash accruals of Rs. 232 Mn. and Rs. 14 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. Furthermore, the company's total operating income has been fluctuating over the past three fiscal years (FY18-20). The same was on account of tender driven nature of business where lowest bidder gets the order. TOI has registered decline on y-o-y basis in FY19 and registers a growth in FY20. In 10MFY21(Till the end of May 2021), the company had achieved total operating income of Rs. 180 Mn.

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

Low order book position with short-term revenue visibility

The unexecuted order book of the company as on June 15, 2021 stood at Rs. 232 Mn (including share of ANSP in JV's) is approximately 1 times of its total operating income for FY20, thereby giving revenue visibility of short term for a period of less than a year. The tenure of the orders undertaken by the company is up to 12 months.

Declining profitability margins and leveraged capital structure

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. On account of same, PBILDT margin declined on y-o-y basis from 18.41% in FY18 to 10.19% in FY20. Furthermore, high dependency on external funding and depreciation expenses has been restricting the PAT margin which stood at 1.42% in FY20 and has been declining on y-o-y basis as reflected in PBIDLT margin.

The capital structure of the company stood leveraged marked by debt equity ratio and overall gearing ratio (including mobilization advance) of 7.92x and 9.66x respectively at the end of FY20. The company has leveraged capital structure on account of low net-worth base.

Working capital intensive nature of business due to elongated collection period though moderate counter party risk

The company has working capital intensive nature of operations marked by an average operating cycle of around 105 days in FY20. Furthermore, the operating cycle has been increasing on y-o-y basis in last 3 fiscal years (FY18-20). Payments are generally received within 75-90 days from the date of billing. However, there is also delays in realization of bills due to inspection of work or procedural delays leading to increase in collection period. ANSP maintained low inventory for around 10-15 days due to available to timely supply of raw materials from its suppliers. The credit period extended by suppliers of raw materials (purchased locally) i.e. usually 30 days is on the basis of negotiation power of the company. These factors lead to high reliance on bank finance to meet its working capital requirements.

Revenue of ANSP is generated via contracts only from government departments through tender and subcontract basis. Though the company has high collection period; however, the counter party risk is moderated by the fact that contracts are obtained from government departments.

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

ANSP'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, ANSP 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***

ANSP was promoted by Mr. Rajesh Kumar Kunwar and his son Mr. Bikendra Kunwar and has established track record of operations of over one and half decade in construction of road, buildings, bridge and irrigation works. Mr. Rajesh Kumar Kunwar, Chairman, has work experience of 15 years in field of construction business, manages company's overall operations of the company. 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.

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 labour 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

Aattreya Nirman Sewa Private Limited (ANSP) was incorporated on December 09, 2005 as a Class-C construction company of Nepal with registered office based in Sindhuli, Nepal. In addition to doing projects independently, ANSP 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	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Income from Operations	160	139	232
PBILDT Margin (%)	18.41	16.38	10.19
Overall Gearing (times)	10.71	13.42	9.66
Total Outstanding Liabilities/Tangible Net worth (times)	16.21	15.03	12.26
Interest Coverage (times)	4.47	2.84	2.68
Current Ratio (times)	0.51	2.38	1.88
Total Debt/ Gross Cash Accruals (times)	2.76	8.50	8.39

A: Audited

Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	27.06	CARE-NP B+
Short Term Bank Facilities	Working Capital Loans	35.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	767.94	CARE-NP B+/ A4
Total		830.00	

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About CARE Ratings Nepal Limited:

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