

## Ashish Nirman Sewa Private Limited

### Ratings

Instrument / Facilities	Amount (Rs. Million)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	485.75	CARE-NP BB+ [Double B Plus]	Assigned
Short-term Bank Facilities	862.50	CARE-NP A4+ [A Four Plus]	Assigned
Long-term/ Short-term Bank Facilities	9,070.00	CARE-NP BB+/ A4+ [Double B Plus/ A Four Plus]	Assigned
<b>Total Facilities</b>	<b>10,418.25</b> <b>[Rs. Ten Billion Four Hundred Eighteen Million Two Hundred and Fifty Thousand Only]</b>		

### Details of instrument / 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 Ashish Nirman Sewa Private Limited (ANS).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANS are constrained by declining revenue profile of the company on standalone basis and elongated collection period. The ratings are also constrained by the company's presence in highly competitive construction industry coupled with tender based nature of operations, planned debt funded capital expenditure, risk of delay in project execution and exposure to volatile interest rates.

The ratings, however, derive strength from long track record of operations, experienced promoters in the related fields and moderate profitability margins, capital structure and debt service coverage indicators of the company. The ratings also factor in healthy order book position and moderate counter party risk with escalation clause in majority of the contracts.

*Going forward, the ability of the company to profitably scale up its operations while maintaining its orderbook and manage its working capital effectively considering high funding requirement to support growth will be crucial and act as the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Declining revenue profile of the company on standalone basis, however improvement in profitability margins**

For the period FY18-FY20, ANS's total operating income (TOI; on standalone basis) has been declining on y-o-y basis from Rs. 1,810 Mn in FY18 to Rs. 1,180 Mn in FY20. TOI declined in FY20 by ~20% from FY19, mainly due to the impact of Covid-19 resulting lower execution of contracts in hand. The company has achieved total operating income of Rs. 880 Mn in 10MFY21 ended mid-May, 2021.

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. Despite decline in total operating income, PBILDT margin improved during the same period from 13.16% in FY18 to 22.28% in FY20. PBILDT margin improved in FY20 over previous year due to high value contracts executed by the company and better optimization of resources. Despite improvement in PBILDT, net profit of the company has remained almost stable in FY19 & FY20 on account of high finance cost and depreciation.

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

***Elongated collection period***

The operations of the company are working capital intensive in nature as reflected from weak current ratio of 0.80x at the end of FY20. Payment is normally received within 45-60 days from the date of billing. ANS avails an average credit period of around 120-150 days for procurement of inputs like cement, metal and fuel etc. The higher credit period from suppliers resulted into negative operating cycle in last 2 financial years (FY18 & FY19). Debtor realization period stood high at 127 days in FY20 which majorly include amount receivable from JVs associates. However, the counter party risk is moderated by the fact that majority of the construction 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 private parties either directly or on sub-contract basis. The 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. Furthermore, it is expected that the company will take additional loans for purchase of equipment/machineries for the new projects proposed to be undertaken in future. Attributed to same, the capital structure of the company is likely to remain moderately leveraged characterized by overall gearing of around 2 times due to capex term loans expected to be taken.

***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******Long track record of operations and experienced promoters in the related fields***

The company has long track record of operations of more than 25 years in the construction of various infrastructure projects all over Nepal. ANS is promoted by Mr. Rishi Kesh Gauli and his family members, holding total shares of the company. Mr. Rishi Kesh Gauli, managing director, has experience of over 35 years in construction sector mainly through his association with company. He looks after overall affairs of the company. Mr. Nirman Gauli, Director, has been involved in ANS since last 10 years and looks after procurement and related operations of the company. The management team is further supported by an experienced professionals across various functions/ departments.

***Healthy order book position with mid-term revenue visibility***

The unexecuted order book of the company as on June 11, 2021 stood at Rs. Rs. 4,729 Mn which is approximately 4x of its total operating income for FY20 providing medium term revenue visibility. The order book of the company is mainly concentrated in road and civil works coupled with other various projects such as water supply, sanitation and irrigation work, railway works, bridge works and others received majorly from various government authorities. Most of the orders

being executed are fixed time in nature and hence effective and timely execution of the orders has a direct bearing on the margins attained.

#### **Moderate capital structure and debt service coverage indicators of the company**

As on mid-July 2020, total debt of the company increased by Rs. 126 Mn to Rs. 719 Mn over previous balance sheet date which comprised of term debt of Rs. 380 Mn, working capital loan of Rs. 233 Mn and mobilization advance of Rs. 107 Mn. The capital structure of the company is moderate marked by debt equity ratio of 1.53x and overall gearing ratio (including mobilization advance) of 2.26x at the end of FY20 on standalone level. Average working capital utilization of the company remains at around 60% against the drawing power for the last 12 months ended mid-May 2021.

Interest coverage ratio and Total debt/ Gross Cash Accruals of the company was satisfactory at 3.81x and 4.12x respectively in 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 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.

#### **Analytical Approach**

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

#### **About the Company**

Ashish Nirman Sewa Private Limited is a Class-A construction company of Nepal, incorporated on August 26, 1998. The company has succeeded an erstwhile proprietorship firm M/s Ashish Nirman Sewa under the same management which was in operation since 1993. The company is engaged in construction and infrastructure sector projects independently as well as through Joint Ventures (JVs).

#### **Financial Performance**

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Total Operating Income	1,810	1,471	1,180
PBILDT Margin (%)	13.16	16.33	22.28
Overall Gearing Ratio (times)	2.67	2.27	2.26
Total Outstanding Liabilities/Tangible Net worth (times)	6.05	5.12	4.04
Interest Coverage (times)	7.66	5.05	3.81
Current Ratio (times)	0.83	0.71	0.80
Total Debt/Gross Cash Accruals (times)	3.18	3.79	4.12

A: Audited

#### **Annexure-1: Details of Instrument / Facilities**

Name of the Instrument / Bank Facilities	Type of the Facility	Amount (Rs. in Million)	Rating assigned
Long Term Bank Facilities	Term Loan	485.75	CARE-NP BB+
Short Term Bank Facilities	Fund Based Limits	862.50	CARE-NP A4+
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	9,070.00	CARE-NP BB+/ A4+
<b>Total</b>		<b>10,418.25</b>	

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