

Bajra Guru Construction Company Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	271.68	CARE-NP BB [Double B]	Assigned
Short Term Bank Facilities	214.00	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	2,614.32	CARE-NP BB/ A4 [Double B/ A Four]	Assigned
Total Facilities	3,100.00 (Three Billion One Hundred Million)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Bajra Guru Construction Company Private Limited (BGC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BGC are constrained by below average financial risk profile marked by low profitability, leveraged capital structure and modest debt service coverage indicators, 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, moderate order book position, comfortable operating cycle 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

Below average financial risk profile

Total operating income (TOI) of BGC stood at Rs. 994 Mn in FY21 (unaudited; FY refers to 12 months' period ended mid-July). In FY21, the performance of the company impacted mainly due to impact of Covid-19 recurring lockdown. Also the company shut down its project work for almost 2 months in FY21 due to restrictions imposed by the Government of Nepal on account of Covid-19. TOI of the company remained almost stable in last 3 FYs (FY19-FY21) which a marginal decline in FY20 due to reasons mentioned above.

Profitability margins of the company have been historically on the moderate side. The operating margins are directly associated with technical aspect of the contract executed. The PBIDLT margin of the company remains at 14% in last two FYs (FY20 & FY21). However, high dependency on external funding and depreciation expenses have been restricting PAT margin which stood at 4% in FY21.

Overall gearing ratio (including mobilization advance) of the company stood high at 5.75x at the end of FY21. The company has leveraged capital structure on account of high dependence on term loan taken for purchase of commercial

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

equipment for execution of contracts and mobilization advances. Interest coverage ratio of the company was moderate and remained at similar level of 4.00x for last two year ending FY21.

Tender based nature of operations in highly competitive construction industry

The company mainly caters to orders received from government departments and private entities either directly or on sub-contract basis constituting with majority of the order coming from government contracts. 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

BGC'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, BGC 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

BGC was promoted Mr. Raju Pandey, Mr. Laxman Kumar Rana, Mr. Pemba Chiring Bhote, Mr. Gokarna Khanal and Mr. Rebant Kumar Basnet and has established track record of operations of over 3 decades in construction of road, bridge, civil of hydropower projects, irrigation and river training works. Mr. Rebant Kumar Basnet, Chairman, has work experience of 25 years in field of construction business and manages company's technical related activities. 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.

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

The unexecuted order book of the company as on mid-June 2021 stood at Rs. 2,471 Mn (share of BGC) which is approximately 2.49 times of its total operating income for FY21, thereby giving mid-term revenue visibility. The tenure of the orders undertaken by the company is up to 48 months. The order book is diversified over various projects such as hydropower's civil works, irrigation & river training works, bridge works, and road works received from various government authorities.

Comfortable operating cycle

Revenue of BGC is generated via contracts from private parties' mostly civil works of hydropower and government departments (~90% of outstanding order value derives from government contracts). Average collection period of the company stood at 11 days in FY21 (vis-à-vis 8 days in FY20). Debtors includes amount receivable from joint ventures associates. The company has to execute orders at different sites and billing for the same is normally done on monthly basis and the average inventory holding was 6 days in FY21. Also, the counter party risk is moderated by the fact that most of the contracts are obtained from government departments.

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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.

Analytical approach:

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

About the Company

Bajra Guru Construction Company Private Limited (BGC), incorporated on October 15, 1985; is a Class-A construction company of Nepal with registered office based in Kathmandu, Nepal. In addition to doing projects independently, BGC also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance – Standalone

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Income from Operations	961	805	994
PBILDT Margin (%)	9.68	13.58	14.21
Overall Gearing (times)	6.28	5.97	5.75
Total Outstanding Liabilities/Tangible Net worth (times)	9.45	8.52	7.18
Interest Coverage (times)	3.52	3.68	4.49
Current Ratio (times)	1.44	1.44	1.58
Total Debt/ Gross Cash Accruals (times)	7.73	8.01	8.55

A: Audited, UA: Unaudited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	271.68	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	214.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	2,614.32	CARE-NP BB/ A4
Total		3,100.00	

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About CARE Ratings Nepal Limited:

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