

Kumar Shrestha Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities –Term Loan	632.94	CARE-NP BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING*)	Downgraded from CARE NP BBB- “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Short Term Bank Facilities- Working Capital Loans	360.00	CARE-NP A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*)	Downgraded from CARE NP A3 “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Short Term Bank Facilities- Non- Funded Loan	8,020.00	CARE-NP BB+/A4+; ISSUER NOT COOPERATING* (Double B Plus/ A Four Plus; ISSUER NOT COOPERATING*)	Downgraded from CARE NP BBB-/A3 “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Total	9,012.94 (Nine Billion Twelve Million Nine Hundred and Forty Thousand only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CRNL has been seeking information from Kumar Shrestha Nirman Sewa Private Limited (KSNS) to monitor the ratings vide e-mail communications/ letters dated May 30, 2021; June 11, 2021 and July 28, 2021 along with numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities Board of Nepal (SEBON) guidelines, CRNL has reviewed the rating on the basis of the best available information which however, in CRNL’s opinion is not sufficient to arrive at a fair rating. CRNL will monitor/watch the rating once for a minimum period of 6 months and notify the Securities Board of Nepal (SEBON) and public with regards to the withdrawal of rating. If after the monitoring of the rating there is no cooperation from the Client, then after, CRNL may withdraw the rating.

The rating of Kumar Shrestha Nirman Sewa Private Limited bank facilities will now be denoted as **CARE-NP BB+/CARE-NP A4+; ISSUER NOT COOPERATING* (Notice of Withdrawal)**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on July 24, 2020 the following were the rating strengths and weaknesses:

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 40 years in construction of various infrastructure projects all over Nepal. KSNS is promoted by Mr. Prem Kumar Shrestha and his family members. Mr. Prem Kumar Shrestha, Managing Director, has extensive experience of over 4 decades in the field of construction contract business and is responsible for day to day affairs of the business.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications
*Issuer did not cooperate; Based on best available information

financial risk profile

The revenue of the company (on standalone basis) increased to Rs. 2,191 Mn in FY19 (increment of ~143%) on account of increase in execution of contracts in hand. However, PBILDT margin deteriorated in FY19 from 19.26% in FY18 to 11.05% in FY19. Also, PAT margin of the company was moderate at 2.31% in FY19 which declined from 3.91% in FY18.

Ownership of sizeable equipment and machineries

KSNS has built up adequate asset base to meet the working requirements of its projects with total fixed asset of Rs. 1,182 Mn at the end of FY19 on standalone basis. Efficient deployment of the resources and investment in machineries/equipment during the past years has helped in timely execution of projects and to further acquire new projects.

Moderate counter party risk

Revenue of KSNS is generated via contracts from government departments related to road works, building works, irrigation and river training works, bridge works etc. Average collection period of the company improved from 43 days in FY18 to 39 days in FY19 reflecting timely collection of amount dues from government department. Further, the counter party risk is moderated by the fact that majority of the construction contracts are obtained from government departments and it has been making timely payment to the company in past.

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.

Key Rating Weaknesses***Leveraged capital structure of the company and Planned debt funded capital expenditure***

The capital structure of the company is marked with debt equity ratio of 0.87x and overall gearing ratio of 3.27x at the end of FY19. Interest coverage ratio of the company was comfortable at 5.01x in FY19. Also, TOL/ TNW and total debt/GCA of the company was 4.79x and 6.77x respectively in FY19.

The company has been making regular investments to expand its infrastructure facilities in the past and is expected to continue in future. The purchase of fixed assets by the company was majorly funded through bank loans. Further, it is expected that the company will take additional loans for purchase of equipment/machineries for the new projects.

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 for which KSNS has to participate in the tenders, 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 at low price through e-bidding to sustain the 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.

Working capital intensive nature of business

The operations of the company are working capital intensive in nature as company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bill. KSNS maintained construction materials as an inventory which was around 1 month. Also the cash flows of the company are blocked in retention money which is deducted by the client from running bills. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

Exposure to volatile interest rates

Nepalese banking sectors are fixing lending interest rate based on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Bank and Financial Institutions is exposed to volatile interest rate.

About the Company

Kumar Shrestha Nirman Sewa Private Limited is Class “A” construction company of Nepal which was incorporated in the year 1977 and later on converted into private limited company in February 28, 1998. The company has registered office based in Mahendranagar, Kanchanpur, Nepal. The company is mainly involved in construction of roads, bridges, irrigation & river training works, water supply & sanitation works, buildings, canals structures etc. across Nepal. In addition to doing projects independently, KSNS also enters into Joint Ventures with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of KSNS on consolidated basis for last three years ending FY19 are given below:

(Rs. Million)

For the year ended Mid July	2017	2018	2019
	(12m, A)	(12m, A)	(12m, P)
Income from Operations	2,125	2,110	4,256
PBILDT	206	209	354
PAT	93	52	142
Overall Gearing (times)	1.43	3.97	3.27
TOL/ TNW (times)	3.44	6.69	4.79
Interest Coverage (times)	12.13	5.34	5.01

A: Audited, P: Provisional

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 Loan	632.94	CARE-NP BB+ Issuer Not Cooperating* (Notice of Withdrawal)
Short Term Bank Facilities	Working Capital Loan	360.00	CARE-NP A4+ Issuer Not Cooperating* (Notice of Withdrawal)
Long Term/Short Term Bank Facilities	Non-Funded Loan	8,020.00	CARE-NP BB+/A4+ Issuer Not Cooperating* (Notice of Withdrawal)
Total		9,012.94	

*Issuer did not cooperate; based on best available information

Contact Us

Analyst

Mr. Nibesh Manandhar
+977-01-4012629
nibesh.manandhar@careratingsnepal.com

Senior Analyst

Ms. Shalini Sanghai
+977-01-4012629
shalini.sanghai@careratingsnepal.com

Relationship Contact

Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.