

Samanantar Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	41.48 (Decreased from 67.19)	CARE-NP BBB [Triple B]	Reaffirmed
Short Term Bank Facilities	60.00	CARE-NP A3+ [A Three Plus]	Reaffirmed
Long Term/Short Term Bank Facilities	10,268.52 (Increased from 5,708.50)	CARE-NP BBB/ A3+ [Triple B / A Three Plus]	Reaffirmed
Total Facilities	10,570.00 (Ten Billion Five Hundred and Seventy Million) (Increased from 5,835.69)		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB' assigned to the long term bank facilities and 'CARE-NP A3+' assigned to the short term bank facilities of Samanantar Nirman Sewa Private Limited (SNSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNSPL continues to derive strength from experienced promoters and established track record of operations, healthy order book position, above average financial risk profile marked by moderate profitability, capital structure and debt service coverage indicators. The ratings also factors healthy liquidity profile of the company, presence of backward integration for construction materials, moderate counter party risk and escalation clause in majority of the contracts.

The rating is however, constrained by 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, impact of covid-19 on its operation and risk of delay in project execution.

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 Strengths

Experienced promoters and established track record of operations

SNSPL has been promoted by Mr. Achyut Prasad Kharel, Mr. Niroj Kumar Thapaliya and Mr. Keshab Prasad Kharel and has an established track record of operations of over two and half decades in construction of roads, buildings, irrigation and water projects. Mr. Achyut Prasad Kharel, Chairman, has considerable experience of over 26 years in the field of construction business. He is mainly specialized in marketing with experience in advisory/consultancy services.

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. Further, the company has a track record of completing the project in a time bound manner and received awards for completing the construction projects before the deadline.

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

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

The unexecuted order book of the company as on June 29, 2021 stood at Rs. 5,420 Mn (including share of SNSPL in joint ventures). The order book of the company reflects short to medium term revenue visibility for the next 3 years. The tenure of the orders undertaken by the company is up to 60 months. The order book is diversified over various projects road works, bridge works, irrigation and water works (river training works, canal works, cross drainage structure, embankment construction etc.) and beautification works received from various government authorities.

Above average financial risk profile marked by improved profitability and moderate capital structure

Total revenue of SNSPL remained almost stable at Rs. 2,932 Mn in FY20 mainly on account of impact on business operations due to lockdown restriction imposed by GON. 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 contracts which are generally technical and complex in nature fetched better profitability margins. In FY20, the PBIDLT margin of the company has shown marginal improvement of 30 bps over previous year and stood at 8.61% on account of execution of better margins contracts. Accordingly, PAT of the company also improved on y-o-y basis in last 3 fiscal years (FY18-FY20) on account of improvement in PBIDLT margin.

The capital structure of the company is comfortable marked by overall gearing ratio (excluding mobilization advance) of 0.17x at the end of FY20. However, the adjusted overall gearing (including mobilization advance, normally interest free) stood high at 5.28x at the end of FY20 and remained almost stable over previous balance sheet date. Interest coverage ratio stood healthy at around 21.79 times in FY20; however, total debt to GCA stood moderate at 8.71x in FY20 on account of high mobilization advances and dividend pay-out.

Healthy liquidity profile of the company

The company has comfortable liquidity position on account of surplus funds available in the form of advance mobilization money (interest free) and significant amount invested in freely traded listed shares. Generally, the company receives maximum 20% of the contract amount as advance mobilization money and the same are interest free. Accordingly, the average working capital utilization of the company stands low.

Presence of backward integration for construction materials

The group associates of the company are involved in production of construction materials such as ready mix concrete (RMC), stone and sand aggregate, sub-base and base course etc. as well as transportation activities to ensure continuous material flow from off-site chains to the construction site. Since group associates are involved in the business of construction material which is primary raw material of the company; thereby, providing synergies to company in better inventory management, timely transportation, supply chain integration etc.

Moderate counter party risk

Revenue of SNSPL is generated via contracts only from government departments through tender and subcontract basis. Average collection period of the company on Standalone Basis was at 50 days in FY20 (vis-à-vis 75 days in FY19). In absolute amount, debtors decreased by 37% at the end of FY20 over FY19 mainly due to timely recovery from its customers. Also, the counter party risk is moderated by the fact all 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 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.

Key Rating Weaknesses***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.

Impact of Covid-19 on its operation

With increased outbreak of the disease in Nepal, different local Government bodies had re-imposed lockdown in most part of the nation from April 29, 2021 to June 21, 2021. Also, GoN started to ease the construction related activities from early June 2021. SNSPL operation was impacted for the month of May 2021 with the decrease in work efficiency at the project site however company was able to increase its efficiency from early June 2021. Also, despite physical completion of work before May, company was unable to raise bill to its employer resulting low booking of revenue till mid-June 2021.

Risk of delay in project execution

SNSPL'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, SNSPL 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.

Analytical approach:

CRNL has analyzed SNSPL's credit profile by considering the consolidated financial statements.

About the Company

Samanantar Nirman Sewa Private Limited (SNSPL), incorporated on September 06, 2009, is a Class-A construction company of Nepal with registered office based in Kathmandu, Nepal. Even though SNSPL was in existence for almost 27 years, the company picked up growth momentum in construction business from 2016 onwards after the massive earthquake in Nepal. In addition to doing projects independently, SNSPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance – Consolidated

(Rs. Million)

For the Period Ended / as at Mid-July,	2018	2019	2020
	(12m, A)	(12m, A)	(12m, A)
Income from Operations	1,861	2,998	2,932
PBILDT Margin (%)	6.66	8.31	8.61
Overall Gearing (times)	5.19	5.23	5.28
Total Outstanding Liabilities/Tangible Net worth (times)	8.40	8.49	9.21
Interest Coverage (times)	NA	7.56	21.79
Current Ratio (times)	1.82	2.03	2.03
Total Debt/ Gross Cash Accruals (times)	6.35	6.77	8.71

A: Audited, FY ended mid-July

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loans	41.48	CARE-NP BBB
Short Term Bank Facilities	Working Capital Loans	60.00	CARE-NP A3+
Long Term/ Short Term Bank Facilities	Non-Funded Loans	10,468.52	CARE-NP BBB/ A3+
Total		10,570.00	

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About CARE Ratings Nepal Limited:

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