

## Swaminarayan Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities –Term Loan	100.00 (Increased from 59.09)	<b>CARE-NP BB</b> <b>[Double B]</b>	<b>Reaffirmed</b>
Short Term Bank Facilities- Working Capital Loan	150.00 (Increased from 10.00)	<b>CARE-NP A4</b> <b>[A Four]</b>	<b>Reaffirmed</b>
Long Term/Short Term Bank Facilities- Non-Funded Loan	2,750.00 (Increased from 1,036.14)	<b>CARE-NP BB/A4</b> <b>[Double B/A Four]</b>	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>3,000.00</b> <b>(Three Billion)</b> <b>(Increased from 1,105.23)</b>		

*Details of instruments/facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Swaminarayan Nirman Sewa Private Limited (SNSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNSPL continues to be constrained by its modest scale of operations with geographical concentrated order book position, below average financial risk profile, presence in highly competitive nature of industry due to tender driven nature of operations. The ratings are also constrained by working capital intensive nature of business, planned debt funded capital expenditure, exposure to volatile interest rates and risk of delay in project execution.

The ratings, however, continues to derive strength from experienced promoters and moderate track record in execution of various construction work, moderate order book position, 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 managing 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

##### ***Modest scale of operations***

The scale of operations remained modest marked by total operating income (TOI) of Rs. 603 Mn in FY21 (Unaudited, FY 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 net-worth of Rs 51 Mn.as on mid-July 2020. The modest scale of operations in a competitive industry limits the pricing power and benefits of economies of scale. Though, the risk is partially mitigated by the fact that the scale of operation is growing continuously. For the period FY19-FY21, the company's total operating income grew from Rs.459 Mn to Rs.603 Mn.

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

***Working capital intensive nature of business***

The operations of the company are working capital intensive in nature. SNSPL primarily works with the government departments and payments for the contracts are received generally within a month. SNSPL maintained construction materials as an inventory for around 1 month. The credit period extended by suppliers of raw materials is on the basis of negotiation power of the company. Retention money is deducted by the client from running bills which will get refunded to the contractor after certain period, usually a year, on successful execution of contracted work. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

***Below average financial risk profile***

PBILDT margin of the company remained at around 10% in last 2 FYs (FY20 & FY21). However, high dependency on external funding and depreciation expenses have been restricting PAT margin which stood at around 5% in last two FYs (FY20 & FY21).

As on Mid-July 2020, the capital structure of the company stood leveraged marked by overall gearing (including mobilization advance) of 2.39x on account of increase in term loans availed by the company for purchase of machineries/ equipment. Debt coverage indicators of the company stood moderate, marked by total debt to gross cash accruals (GCA) and interest coverage of below 5x and above 8x respectively in last two FYs (FY20 & FY21).

***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 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 a low price to sustain competition. Consequently, 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.

***Planned debt funded capital expenditure***

The company has been making regular investments to expand its execution capabilities in the past and expected to continue in future. The investment in equipment/ machineries was Rs. 100 Mn in FY20 and FY21. The purchase of fixed assets was mainly funded through bank finance without any infusion of equity resulting in increase of debt component. Furthermore, it is expected that the company will take additional loan for purchase of equipment/machineries for the new projects proposed to be undertaken in future.

***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.

**Key Rating Strengths*****Experienced promoters and moderate track record of operations***

SNSPL was promoted by Mr. Santosh Kumar Basnet. The company has track record of executing projects related to civil construction, irrigation works, canals, embankment works etc. Mr. Basnet has been leading the company since its

inception and has experience of over 2 decades in field of construction business. He is looking after the overall affairs of the company with the support of experienced team across various functions.

***Moderate order book position though geographically concentrated***

The unexecuted order book of the company as on August 02, 2021 remained at Rs. 1,235 Mn (share of SNSPL in joint ventures). The order book of the company reflects short to medium term revenue visibility and current order is around 2.05 times of FY21 total operating income. The tenure of the orders undertaken by the company is up to 48 months. The order book is diversified over various projects such as building works, irrigation & water works such as embankment, headworks, canal, sanitation etc., bridge works, water supply works, airport works and road works received from various government authorities.

The entire operations of the company and its order book are concentrated mainly in the eastern regions of Nepal. Attributed to same, the company is also exposed to geographical concentration risk like natural disasters, regional execution challenges related to local disturbances towards execution of contract etc.

***Escalation clause in majority of the contracts***

The company has inbuilt price escalation clauses in majority of contracts from government departments in order to insulate the company from any adverse fluctuation in raw material prices and labor expenses. Any changes in price have to be informed beforehand and mutually decided between both parties. 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 the credit perspective.

***Analytical approach:***

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

**About the Company**

Swaminarayan Nirman Sewa Private Limited (SNSPL) was incorporated on September 02, 2013 as a Class-A construction company of Nepal with registered office based in Sunsari, 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**

For the year ended Mid July	<i>(Rs. Million)</i>		
	2019 (12m, A)	2020 (12m, UA)	2021 (12m, UA)
Income from Operations	459	470	603
PBILDT Margin (%)	7.16	10.03	10.07
Overall Gearing (times)	1.84	2.39	3.02
Total Outstanding Liabilities/Tangible Net worth (times)	5.59	6.22	6.13
Interest Coverage (times)	11.68	12.19	8.84
Current Ratio (times)	1.56	1.49	1.33
Total Debt/ Gross Cash Accruals (times)	3.59	3.43	4.29

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	50.03	CARE-NP BB
Long Term Bank Facilities	Term Loans (Proposed)	49.97	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	59.00	CARE-NP A4
Short Term Bank Facilities	Working Capital Loans (Proposed)	91.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	1,773.30	CARE-NP BB/ A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans (Proposed)	976.70	CARE-NP BB/ A4
<b>Total</b>		<b>3,000.00</b>	

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**About CARE Ratings Nepal Limited:**

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