

Bhuwaneshwori and Bhaibhab Builders Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	33.13	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	30.00	CARE-NP A4 [A Four]	Assigned
Long Term/Short Term Bank Facilities	1,146.87	CARE-NP BB-/A4 [Double B Minus/A Four]	Assigned
Total Facilities	1,210.00 (One billion two hundred and ten million only)		

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 Bhuwaneshwori & Bhaibhab Builders Private Limited (B&B).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of B&B are constrained by below average financial risk profile marked by fluctuating scale of operations, working capital intensive nature of business 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 & established track record of operations, moderate order book position, moderate profitability margins, capital structure & debt service coverage indicators 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

B&B's financial profile remains below average with fluctuating total operating income (TOI) in the last 3 FYs (FY refers to 12 months' period ended mid-July). TOI has registered growth in FY20 and again decline in FY21 (Unaudited). The delay in execution of contract contributed by contract period extension by the government led to decline in the revenue during FY21. Furthermore, due to Covid-19 related restrictions, execution was disrupted in various project sites leading to decline in revenue. Also, the company's business is tender driven and lowest bidder gets the order which also has an impact of revenue generation.

Profitability margins of the company are directly associated with technical aspect of the order. The contracts which are complex in nature normally fetch better margins. PBIDLT margin of the company have been improving on y-o-y basis over the last three years (FY19-FY21) and stood moderate at 13.33% in FY21. However, PAT margin remained fluctuating over last three years (FY19-FY21) which deteriorated to 2.74% in FY21 from 4.73% in FY20 on account of increased depreciation and interest cost.

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

Overall gearing ratio of the company deteriorated, however, remains moderate at 1.27x at the end of FY21 on account of increase in hire purchase loans and increase in working capital limit. Also, this increase in loans has impacted total debt to gross cash accruals which has resulted deterioration to 4.40x in FY21 from 1.86x in FY20. However, interest coverage ratio of the company was moderate and remained at 3.90x in FY21. TOL/TNW stood moderate and remained at similar level of 1.66x at the end of FY21.

Working capital intensive nature of business

B&B primarily works with the government departments and the work done needs to be inspected by appointed project specific engineers/ consultants before presenting of the final bills to concerned government authorities which usually takes around 2 weeks' period resulting in delay in fund realization. The average collection period stands at 18 days in FY21 on account of timely realization from Government parties. B&B maintained construction materials as an inventory for around 3 months in FY21 which are procured directly from the factory in bulk. Average credit period provided by the suppliers is generally upto 3 months. Retention money is deducted by the clients from running bills which will get refunded to the contractor after certain period, usually 1 year, on successful execution of contracted work. These factors lead to reliance of the company on bank finance to meet its working capital requirements which had resulted higher working capital utilization which was around 90% as on mid- July, 2021.

Tender based nature of operations in highly competitive construction industry

The company receives its entire work orders from government departments related to road, bridge, building and river protection work. 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

B&B'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, B&B 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

B&B was promoted by Mr. Dendra Kumar Karki, Mr. Rabi Pokharel, Ms. Abhaya Basnet, Mr. Manish Silwal, Mr. Bishal Ghimire and Mr. Sudarshan Karki. The company has established track record of operations of over 3 decades in executing construction projects. Mr. Manish Silwal, Managing Director, holds 3 years of experience in the construction field and has bachelor degree in management and is responsible for overall execution of head office. 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-August, 2021 stood at Rs. 721 Mn (share of B&B) which is approximately 4.98 times of its total operating income of 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 road works, building works, bridge works, river training and irrigation works received from various government authorities. Effective and timely execution of the orders is critical for the company and has a direct bearing on the margins to be attained.

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 B&B's credit profile by considering the standalone financial statements.

About the Company

Bhubaneshwori & Bhaibhab Builders Pvt Ltd (B&B), was incorporated in 1989 under the name of Joshi Nirman Sewa and later on, the name was revised after acquisition in the year 2015 to Bhubaneshwori & Bhaibhab Builders Pvt Ltd. B&B is a Class-C construction company involved in providing pre-construction and construction services. In addition to doing projects independently, B&B 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	111	172	145
PBILDT Margin (%)	9.48	10.82	13.33
Overall Gearing (times)	2.34	0.62	1.27
Total Outstanding Liabilities/Tangible Net worth (times)	4.86	1.67	1.66
Interest Coverage (times)	3.34	8.77	3.90
Current Ratio (times)	1.39	1.68	1.58
Total Debt/ Gross Cash Accruals (times)	4.38	1.86	4.40

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	33.13	CARE-NP BB-
Short Term Bank Facilities	Working Capital Loans	30.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	1,146.87	CARE-NP BB-/ A4
Total		1,210.00	

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About CARE Ratings Nepal Limited:

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