

Gwallek Nirman Sewa Private Limited

Rating

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities –Term Loan	165.61	CARE-NP BB: ISSUER NOT COOPERATING* [Double B; ISSUER NOT COOPERATING*]	Revised from BB+ “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Long Term Bank Facilities –Term Loan (Proposed)	29.39	CARE-NP BB: ISSUER NOT COOPERATING* [Double B; ISSUER NOT COOPERATING*]	Revised from BB+ “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Short Term Bank Facilities- Fund Based Limits	85.00	CARE-NP A4: ISSUER NOT COOPERATING* [A Four; ISSUER NOT COOPERATING*]	Revised from A4+ “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Long Term/Short Term Bank Facilities- Non-Fund Based Limits	720.00	CARE-NP A4: ISSUER NOT COOPERATING* [A Four; ISSUER NOT COOPERATING*]	Revised from A4+ “Issuer not cooperating; Based on best available information” (Notice of Withdrawal)
Total Facilities	1,000.00		

CARE Ratings Nepal Limited (CRNL) has been seeking information from Gwallek Nirman Sewa Private Limited (GNS) to monitor the ratings vide e-mail communications/ letters dated August 31, 2021, February 3, 2022, March 09, 2022, March 30, 2022, April 11, 2022, May 19, 2022 and May 27, 2022 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 bank loan rating of Gwallek Nirman Sewa Private Limited 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.

Detailed description of the key rating drivers

Key Rating Weaknesses

Financial risk profile marked by decline in revenue with moderately leveraged capital structure

The revenue of the company declined by ~8% in FY20 to Rs. 446 Mn as compared to FY19. The capital structure of the company was moderately leveraged with debt equity ratio of 1.98x and overall gearing ratio of 2.09x at the end of FY20.

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

Geographically concentrated order book position

In November 2020, the entire operations of the company and its order book were concentrated mainly in road projects of far-western regions. The limited exposure to the diverse sectors limits GNS's execution capabilities which would restrict the order book position and have limited revenue growth in the upcoming years.

Working capital intensive nature of business

The operations of the company were working capital intensive in nature as the company primarily works with government departments and funds are released only after the work certification process is completed and finalization of the bills. Average debtor days stood at 57 days at the end of FY20 which increased from 48 days at the end of FY19 majorly due to billing raised at year end mainly to the government clients. Average inventory holding period of the company was around 21 days at the end of FY20. These factors lead to reliance of the company on bank finance to meet its working capital requirements.

Tender based nature of operations in highly competitive construction industry

Majority of the GNC's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, GNC's business is vulnerable to under bidding at a relatively low cost in order to secure the projects, in the highly competitive construction industry. Furthermore, the business also remains dependent on sustained capital expenditure by the government towards construction projects, overall stability in government policies and fiscal position of the government.

Key Rating Strengths**Experienced promoters in the related fields and moderate track record of operations**

GNS is being promoted by Mr. Suresh Chand, Managing Director, has been leading the company since its inception from March 2014. He manages overall projects executed by the company since 2014. Further, the board is supported by an experienced team across various functions.

Moderate counter party risk with escalation clause in majority of the contractors

Revenue of GNS is generated via government departments. Counter party risk remains moderate given the projects are from government departments. 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.

About the Company

Gwallek Nirman Sewa Private Limited (GNS), incorporated on March 25, 2014, is a Class-A construction company of Nepal with registered office based in Baitadi, Nepal. The company is mainly involved in construction of various projects related to road works, building works, bridge works, irrigation works etc. mainly in far-western part of Nepal. In addition to doing projects independently, GNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Brief financials of GNS for last two years ending FY20 are given below:

(Rs. In Million)

Particulars	FY19(A)	FY20(UA)
Income from Operations	486	446
PBILDT	69	101
PAT	14	28
Overall Gearing (times)	2.33	2.09
Interest coverage (times)	3.82	4.83

A: Audited; UA: Unaudited

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About CARE Ratings:

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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).

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