

Rajendra Nirman Sewa Private Limited

Ratings

Facilities/Instrument	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	320.65	CARE-NP D	Revised from CARE-NP BB
Short Term Bank Facilities	278.96	CARE-NP D	Revised from CARE-NP A4
Long Term/Short Term Bank Facilities	3,824.46	CARE-NP D	Revised from CARE-NP BB/CARE- NP A4
Total Facilities	4,424.07		

Annexure-1 Details of Facilities/Instruments to be rated

CARE Ratings Nepal Limited (CRNL) has revised the ratings assigned to the long term bank facilities to `CARE-NP D' from `CARE-NP BB' and short term bank facilities to `CARE-NP D' from `CARE-NP A4' of Rajendra Nirman Sewa Private Limited (RNS).

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned is on account of delay in servicing of debt obligations by more than 30 days and accordingly rating action has been taken based on CARE Ratings Nepal Default Recognition Policy. Further, RMS will be continued to be constrained by weak financial performance, working capital intensive nature of business and its presence in highly competitive construction industry and risk of delay in project execution.

Going forward, the ability of the company of timely repayment of debt obligations will be a key rating sensitivity. Also, ability of 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

High working capital intensity led to delay in Servicing of Debt Obligations by more than 30 days

Total operating cycle of the company was substantially high at 229 days in FY21 on account of delays in realization of debtors. An elongated operating cycle generally led to increased reliance of the company on bank finance to meet its working capital requirements, resulting in increased debt levels.

There have been instances of delays in servicing of debt obligations by RNS. The company's liquidity was stretched on account of delays in realization of debtors, which is reflected by the near full utilization of fund based working capital bank facilities. There has been mismatches between receipts (realization) vis-à-vis the debt repayment obligations which resulted in delays in debt servicing by more than 30 days.

Weak and deteriorating Financial Risk Profile

Total Operating Income (TOI) of the company increased marginally by 1.73%, yoy to Rs. 1,288 Mn in FY21. Capital Structure of the company is leveraged indicated by Debt equity ratio and overall gearing ratio (including mobilization advance) of 2.01x and 3.94x respectively as at mid-July FY21. Furthermore, total gearing ratio deteriorated from 3.25x over previous balance sheet date. High dependence on external borrowing led to increase in finance expenses and PAT of the company decreased

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

by 46.05% on yoy basis to Rs. 36 Mn. Gross Cash Accruals of the company also decreased to Rs. 120 Mn in FY21 from Rs. 187 Mn in FY20. Total Debt/GCA also stand high at 12.12x for FY21 end showing deterioration from 4.09 for FY20 owing to overall increase in debt level and lower gross accrual during FY21.

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.

Experienced promoters and established track record of operations

RNS was promoted by Mr. Bhim Bahadur Saud and his son Mr. Surendra Saud and has established track record of operations of over 13 years in construction of roads, buildings, bridges, irrigations and water projects. Mr. Surendra Saud, managing director, has work experience of over 5 years in the construction sector and oversees all operations of the company.

Analytical approach:

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

About the Company

Rajendra Nirman Sewa Private Limited (RNS), incorporated on September 24, 1999, is a Class-A construction company of Nepal with registered office based in Dadeldhura, Nepal. Even though the company was registered in 1999, the business of the company started growing from around 2008 onwards. In addition to doing projects independently, RNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects. Brief financials of the company on consolidated basis for last 3 years is as under:

Particulars	(Rs. in Million)		
	FY19 Audited	FY20 Audited	FY21 Audited
Income from Operations	1,218	1,266	1,288
PBILD Margin	20.89	24.14	23.00
Overall Gearing (times)	8.69	3.25	3.94
Interest coverage (times)	2.44	3.25	2.23
Current ratio (times)	1.06	1.12	1.09
Total Debt/Gross Cash Accruals	6.55	4.09	12.12

Annexure-1 Details of Facilities/Instruments to be rated

Name of Instrument	Type of Facility	Amount(Rs in Million)	Rating
Long Term Bank Facilities	Term Loan	320.65	CARE-NP D
Short Term Bank Facilities	Working Capital Loans	278.96	CARE-NP D
Long Term/ Short Term Bank Facilities	Non-Fund Based Loans	3,824.46	CARE-NP D
Total		4,424.07	

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