

Gajurmukhi Nirman Company Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	266.46	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	4,533.54	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	4,800.00 (Four Thousand Eight Hundred Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BB' assigned to the long-term bank facilities and 'CARE-NP A4' assigned to the short-term bank facilities of Gajurmukhi Nirman Company Private Limited (GNC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GNC continues to be constrained by its leveraged capital structure, 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 government regulations and risk of delay in project execution.

The ratings, however, derive strength from GNC's established track record of operations and experienced promoters, moderate order book position, moderate counter party risk and escalation clause in majority of the contracts. The ratings also take cognizance of growth in total operating income (TOI) in FY21 (FY refers to the twelve-month period ended mid-July).

Going forward, the ability of the company to successfully execute projects in time and recover contract proceeds and its ability to manage healthy revenue growth and profitability margins leading to improvement in its financial risk profile will be key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Elongated collection period

The operations of the company are working capital intensive in nature marked by high collection period. The funds are released only after the work certification process is completed and finalization of the bill is done. Customer base includes government departments either directly or under sub-contract basis; therefore, the certification and realization of the bill generally takes the period of around two months. There is usually a delay in the recovery of debtors, and at times, the same exceeds more than three months. Collection period is lengthy in the projects executed under sub-contract basis as payment is realized only after the primary contractor collects it from the employer. Consequently, average collection period of the company was high at 339 days in FY21, which improved from 418 days in FY20. Improvement in collection period was on account of improved debtor realization during the year. Average inventory holding period of the company was around 13 days in FY21 compared to 5 days in FY20. Operating cycle of the company was substantially high at 231 days in FY21, which decreased from 322 days in FY20. An elongated operating cycle generally led to increased reliance of the company on borrowings to meet its working capital requirements.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Below average financial risk profile marked by fluctuating profitability margins and leveraged capital structure

In FY21, GNC's TOI grew ~40% over FY20 to Rs. 604 Mn boosted by execution of projects after being impacted by the pandemic during FY20 when total operating income had declined ~20% over FY19. The business generation of the company is through bidding and tendering process and profitability margins are directly associated with the nature of contracts executed by the company. The PBILDT margin of the company has remained highly volatile and fluctuated between 19%-28% during the last three financial years (FY19-FY21). Furthermore, with decrease in PBILDT margin to 22.12% in FY21 from 27.57% in FY20, PAT margin of GNC declined to 2.34% in FY21 from 3.02% in FY20.

Capital structure of SCEPL stood leveraged with overall gearing ratio of 3.95x as on mid-July 2021, which improved from 7.30x as on mid-July 2020 amid increase in equity share capital of the company by Rs.76 Mn during FY21. Total debt of the company, which mainly comprises of term loans & working capital borrowings, increased in FY21 to Rs. 699 Mn from Rs. 626 Mn in FY20 on account of increased hire purchase loans for funding purchase of construction machineries and working capital loans for funding working capital needs of the company. Also, total outside liability to total net worth and total debt to gross cash accruals remained high at 5.19x and 10.92x respectively as on mid-July 2021 (9.42x and 10.17x, respectively, as on mid-July 2020). However, the interest coverage was moderate at 2.06x in FY21 which deteriorated from 2.27x in FY20, due to increased interest expense amid higher bank borrowings of the company.

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. Government of Nepal (GoN) has put certain restrictions on the contractors to participate in tenders such as prohibiting foreign companies to participate in tenders having value less than Rs. 3,000 Mn, which augurs well for domestic players. Furthermore, the GoN has also placed a cap on total active projects of construction companies at five, which could limit growth prospects.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy. Furthermore, increased bank rates announced in the Monetary Policy for FY23 is likely to add to the upward pressure on interest rates going forward. Any significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Risk of delay in project execution

Given the nature of projects awarded, GNC is exposed to inherent risk in terms of delays in certain projects undertaken by the company due to delay in procedural approvals and clearance of project sites, etc, thus exposing the company towards the risk of delay in projects resulting in a delay in the realization of revenue growth. Furthermore, the company ability to execute a project in timely manner would be led by its own operational efficiency and timely stage payments received from clients.

Key Rating Strengths

Experienced promoters and established track record of operations

GNC is promoted by Mr. Deepak Gautam, Chairman, who has experience of more than two decades in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. He is responsible for execution of projects undertaken by the company. GNC has total number of 5 directors in its board. Further, the board is supported by an experienced team across various functions.

The company has established track record of operations of more than three decades in the construction of various infrastructure projects all over Nepal.

Moderate order book position

As on April 30, 2022, the unexecuted orders in hand of the company stood at Rs. 3,024 Mn, which is 5.00x of the income from contract of FY21, providing medium-term revenue visibility. The order book is primarily concentrated towards road projects (~83%) and other construction projects such as railway, river training, building and bridge projects by entering into JVs. Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

Moderate counter party risk

Revenue of GNC is majorly generated via contracts from government departments. The order book is primarily concentrated towards road projects from government departments. Counter party risk remains moderate given the projects are from government departments, which have been making timely payment to the company in the past.

About the Company

GNC, incorporated in the year 2000, is a Class "B" construction company of Nepal with registered office based in Ilam, Nepal. The company is mainly involved in construction of roads, railways, bridges, buildings, irrigation and river training projects, etc. In addition to doing projects independently, GNC also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	543	433	604
PBILDT Margin (%)	19.26	27.57	22.12
Overall Gearing (times)	5.71	7.30	3.95
Interest Coverage (times)	3.00	2.27	2.06
Current Ratio (times)	0.84	1.22	1.07
Total Debt/ Gross Cash Accruals (times)	4.76	10.17	10.92

A: Audited

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 Loan	266.46	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	300.00	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	4,233.54	CARE-NP A4 [A Four]
Total		4,800.00	

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About CARE Ratings Nepal Limited:

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