

Ajad Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	19.99	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	22.50	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	1,400.00	CARE-NP BB-/A4 [Double B Minus /A four]	Assigned
Total Facilities	1,442.49 (One Thousand Four Hundred Forty Two Million and Four Hundred Ninety Thousand 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 the rating of 'CARE-NP A4' to the short term bank facilities of Ajad Nirman Sewa Private Limited (ANSPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANSPL are constrained by its modest scale of operation with low capital base and working capital intensive nature of operations marked by elongated average collection period at the end of FY22 (FY refers to twelve-month period ending mid-July). The ratings also factor in the tender based nature of operations in highly competitive construction industry, risk of delay in project execution and timely recovery of contract proceeds, particularly amid the ongoing slowdown in infrastructure spending by the government.

The ratings, however, derive strengths from experienced promoter in the related field with established track record in execution of various construction works, moderate order book position with diversified order book, moderate counter party risk and escalation clause in majority of contracts.

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

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Modest scale of operation with low capital base

ANSPL's scale of operations is relatively modest with Total Operating Income (TOI) of Rs. 356 Mn during FY22. Although the company's scale of operations has remained fairly stable over the past three financial years (FY20-FY22), its ability to substantially scale up to larger sized contracts having better operating margins is constrained by its comparatively low paid-up capital of Rs. 15 Mn as on mid-July 2022. Small scale of operations in a competitive industry limits the pricing power and benefits derived from economies of scale decrease in operational profit with corresponding decrease in overall revenue. Small scale of operations in a competitive industry limits the pricing power and benefits derived from economies of scale.

Working Capital Intensive nature of business

The operation of ANSPL is working capital intensive marked by elongated average collection period of 59 days at the end of FY22. ANSPL primarily works with various government departments and payments for the contracts are generally received

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

only after the work certification process is completed and finalization of the bill is done. Lengthy certification processes normally lead to high work in progress and inventory levels. Furthermore, retention deposit is deducted by the clients from running bills which gets refunded to the contractor after some period, usually twelve months, on successful execution of the contracted work. 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

The company receives its majority work orders from government departments and local authorities. All contracts are tender-based for which ANSPL has to participate in the tenders, 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 at low price through e-bidding to sustain the competition. ANSPL enters into construction contracts either individually or through JV entities in order to meet eligibility criteria for these contracts.

There are numerous players operating in this industry which makes the industry highly competitive and the ability of ANSPL to sustain its profitability margins and growth in future remain crucial. Furthermore, the business also remains dependent on 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. 5,000 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.

Risk of delay in project execution and timely realization of proceed of contracts

Given the nature of projects awarded, ANSPL 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 further resulting a delayed realization of revenue growth. Furthermore, the company's ability to execute projects in timely manner would be led by its own operational efficiency and timely stage payments received from clients. Although counter party risk over the medium term remains moderate given the projects are from government departments, which have been making timely payment to the company in the past, timely debtor realization, particularly at times of economic downturn, remains a key challenge for the construction sector. Presence of escalation clause in majority of the contracts enable the company to pass increase in raw material prices to its customers. Ability of the company to pass increased burden to the customer in a timely manner and maintain profitability margins is critical from a credit perspective.

Exposure to volatile interest rates

ANSPL's interest expenses are based on 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. Thus, funding taken by the company is exposed to volatile interest rate.

Key Rating Strengths

Experienced promoters and established track record of operations

ANSPL is promoted by three directors in board, chaired by Mr. Ambar Bahadur Rayamajhi who has more than three decades of experience in the field of construction. He is also involved as a managing director in Sungabha Supply & Services Private Limited for more than two decades and Rauta Service Private Limited for over a decade. Mr. Dambar Bahadur Karki, director, has qualification of Bachelor degree in Law. He has experience of more than two decades in the field of construction. Mr. Ratna Bahadur, director, has more than fifteen years in the field of construction and also involved in various other companies.

ANSPL has an established track record of thirteen years in construction of roads, bridges, hospital buildings and other infrastructural development from small to large size projects and have executed several projects across the country in different terrains either individually or through its JV entities.

Moderate capital structure and liquidity ratios

The capital structure of the company is moderate with overall gearing ratio (with mobilization advance) of 0.44x at the end of FY22 which improved from 0.52x at the end of FY21. The gearing ratio improved in FY22 compared to FY21 majorly on account of improvement in net worth with accretion of profits to the reserves of the company. However, TOL/TNW of the company slightly deteriorated to 1.60x in FY22 from 1.20x in FY21 due decrease in gross cash accruals impacted by lower gross margin. Consequently, total debt/ GCA of the company also deteriorated to 1.60x in FY22 as compared to 1.47x in FY21. Furthermore, the current ratio of the company was moderate at 1.49x in FY22 which slightly deteriorated from FY21 (1.82x) due to increase in short term loans. The debt coverage indicators also stood adequate with interest coverage ratio of 3.92x and 6.44x in FY21 and FY22, respectively.

Moderate order book position with diversified order book.

The unexecuted order book of the company as on May 10, 2023 was Rs. 553 Mn (share of ANSPL only), providing moderate revenue visibility. The tenure of the orders undertaken by the company is up to 12-24 months. The order book of the company is diversified with most of the outstanding works in road projects (~35.87% of the total order book), Building projects (~21.01% of the total order book), Bridge projects (~35.17%) and other infrastructure development (~7.95%).

Moderate counter party risk and escalation clause in majority of contracts

Revenue of ANSPL is majorly generated via contracts from government departments. The order book is primarily concentrated towards airport related works 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. Ability of the company to pass increase in input prices to the customer in a timely manner and maintain profitability margins is a critical for its profitability.

Industry Outlook

The construction sector in Nepal has been impacted by lower execution in the aftermath of the covid-19 pandemic with slower pace of economic growth coupled with relatively lower infrastructure spending by the government. Furthermore, contractors' cash flows have also come under pressure as a result of highly inflated construction costs leading to shrinking margins over FY22-9MFY23. Increasing trend in fuel price, which is a key input for road construction, building materials and other construction equipment, has added to the margin pressure. Furthermore, as government capital expenditure continues to remain substantially lower than budgeted amount, income prospects remain subdued over the near-term which coupled with delays in payments to contractors has led to some stress in the construction sector in 9MFY23 leading to the slippages in the construction portfolio of BFIs. Near term operating environment for construction companies, including RCPL, remains challenging and will remain a key monitorable aspect.

About the Company

Ajad Nirman Sewa Private (ANSPL) is a Class "B" construction company in Nepal, incorporated on November 28, 2010, with registered office in Baneshwor-10, Kathmandu, Nepal. ANSPL is mainly involved in projects associated with construction of road, highway, bridge, drainage, irrigation, river training and building. In addition to doing projects independently, ANSPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance on the basis of Consolidated Financial Statement

For the period ended/ as at mid-July	FY20	FY21	FY22
Income from operations	224	313	356
PBILDT Margin (%)	10.18	9.53	9.09
Overall Gearing (times)	0.34	0.52	0.44
Interest Coverage (times)	4.74	6.44	3.92
Current Ratio (times)	1.76	1.82	1.49
Total Debt/ Gross Cash Accruals	1.04	1.47	1.60

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	19.99	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limit	22.50	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non Fund Based Limit	1,400.00	CARE-NP BB -/A4 [Double B Minus/A four]
Total		1,442.49	

Contact us

Analyst Contact

Ms. Sujana Chaulagain

Contact No.: +977 9802312970

Email: sujana.chaulagain@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977 9802312855

Email: pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

About CARE Ratings:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

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).

Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.