

## A. One Builders Private Limited

### Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	36.51 (Decreased from 43.39)	CARE-NP BB- [Double B Minus]	Revised from CARE-NP BB
Short Term Bank Facilities	190.68 (Increased from 183.80)	CARE-NP A4 [A Four]	Reaffirmed
Long Term/Short Term Bank Facilities	702.88	CARE-NP BB-/A4 [Double B Minus/A Four]	Revised from CARE-NP BB/A4
<b>Total Facilities</b>	<b>930.07</b> <b>(Nine Hundred Thirty Million and Seventy Thousand Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the long term bank facilities to 'CARE-NP BB-' from "CARE-NP BB" and reaffirmed the rating of 'CARE-NP A4' assigned to the short term bank facilities of A. One Builders Private Limited (AOBP).

### Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of AOBP takes into account the deterioration in its financial performance during FY22 (Audited; FY refers to the twelve-month period ending mid-July) marked by decline in total operating income along with low net profitability. The ratings also factor in stretched liquidity position of the company amid highly elongated operating cycle marked by high average collection period at the end of FY22. The ratings also continue to consider the relatively higher counter party risk, presence in highly competitive construction industry coupled with tender based nature of operations and risk of delay in project execution. The ratings, however, continue to derive strength from experienced promoter in construction field, moderate though concentrated order book position and escalation clause in majority of the contracts.

*Going forward, the ability of the company to execute projects and recover contract proceeds in a timely manner leading to sustained revenue growth while maintaining profitability margins with improvement in its overall financial risk profile will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Below average financial risk profile

The company's Total Operating Income (TOI) has been on a declining trend over FY21 and FY22. Amid low project execution AOBP's TOI declined by 29.96% year-on-year (y-o-y) in FY22 following 19.11% y-o-y decline in FY21. The decline in TOI in FY22 was partly on account of execution of high margin projects having smaller value rather than sub-contracts projects. Consequently, despite decline in TOI, AOBP's PBILDT margin increased to 16.40% during FY22 from 8.27% during FY21. However, the company's net profitability margin remained low at 1.20% in FY22 on account of high depreciation and internet expenses. Although project execution has picked up so far in FY23 with company booking revenue of Rs. 450 Mn in 10MFY23 (Unaudited; refers to the ten-month period ending mid-May), the company's ability to maintain growth in operations with steady profitability for a sustained period remains to be seen.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

Capital structure of AOBP stood leveraged with overall gearing ratio (including mobilization advance) of 2.92x as on mid-July 2022 and the same improved from 4.17x as on mid-July 2021 mainly on account of increase in net worth of the company with additional infusion of Rs. 20 Mn equity from the promoters and decrease in debt levels during FY22. Total debt of the company, which comprises of hire purchase loans, mobilization advance & working capital borrowings decreased at the end of FY22 to Rs. 235 Mn from Rs. 273 Mn at the end of FY21. Interest coverage ratio of the company deteriorated to 1.90x in FY22 from 2.32x in FY21 on account of increase in interest expenses. Furthermore, Total debt/GCA of the company stood high albeit improved to 9.72x during FY22 from 15.52x during FY21 on account of increase in cash accruals and decline in total debt at the end of FY22.

### **Working capital intensive nature of business leading to elongated operating cycle**

The operations of the company are working capital intensive in nature marked by high collection period. Customer base includes private parties and government departments/ bodies. The funds are released only after the work certification process is completed and finalization of the bill is done. AOBP's average collection period stood highly elongated to 343 days in FY22 from 96 days in FY21, impacted mainly by the slow debtor realization amid tight liquidity in the market. Higher collection period at FY22 end was also partly on account of higher billing for material sales by the company in the last quarter of financial year. An elongated collection period is a concern, particularly amid the slowdown in government capital expenditures and revenue collection over the last year or so coupled with the ongoing liquidity stress/credit crunch in the banking industry. Amid increasing working capital intensity, the company's reliance on borrowings to meet its working capital requirements is likely to increase further. The resultant working capital requirements are met largely through bank borrowings which normally results in average utilization of more than 80% of its sanctioned working capital limits. Hence, the company's ability to realize debtors swiftly will be critical from credit perspective.

### **High counter party risk**

Revenue of AOBP is generated via execution of contracts of private entities and also contracts of government departments on subcontract basis. The order book is primarily concentrated towards building projects from private parties. Counter party risk remains high given the projects are from private parties and revenue billing and payment recovery is dependent on availability of funds and liquidity of the private parties which may significantly impact AOBP's financials.

### **Tender based nature of operations in highly competitive construction industry**

Majority of the AOBP's projects are tender-based private and government contracts wherein the company has to quote a bid. With multiple players active in the industry, AOBP'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. 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**

Given the nature of projects awarded, AOBP 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 in the related fields**

AOBP is managed under the overall guidance of the company's board of directors who possess wide industry experience. AOBP has three Board of directors, chaired by Mr. Bhakta Bahadur Lama, who has been leading the company since its inception from August 2015. He manages overall projects executed by the company and business development of the company. The promoters of the company have considerable experience in construction business mainly in airport works on individual level and through AOBP's projects. BOD is further supported by an experienced team across various functions/ departments.

#### **Moderate albeit highly concentrated order book position with mid-term revenue visibility**

As on mid- April 2023, the unexecuted orders in hand of the company stood at Rs. 2,679 Mn which is ~8.59x of its operating income for FY22, providing mid-term revenue visibility. The current order book is primarily concentrated towards single project (~90%) from building project. Having a concentrated order book on few projects links the company's performance to the same and any delays in execution of such projects can materially impact the company's financial health. Timely completion of the projects, including AOBP's ability to regularly bill and realize projects under progress, would be critical for the business prospects of the company and also has a direct bearing on its margins.

#### **Escalation clause in majority of the contracts**

The company has inbuilt price escalation clauses in majority of contracts (both government and private 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 is critical for maintaining a stable profitability profile.

### **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 AOBP, remains challenging and will remain a key monitorable aspect.

### **About the Company**

A. One Builders was incorporated on August 06, 2015 as a sole proprietorship firm which was later converted into private limited company as A. One Builders Private Limited (AOBP) on November 23, 2018. It is a Class-D construction company of Nepal with registered office based in Kathmandu, Nepal. In addition to doing projects independently, AOBP also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

## Financial Performance

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	551	446	312
PBILDT Margin (%)	6.94	8.27	16.40
Overall Gearing (times)	2.44	4.17	2.92
Interest coverage (times)	7.97	2.32	1.90
Current Ratio (times)	0.84	1.26	1.13
Total Debt/Gross Cash Accruals (times)	3.48	15.52	9.72

A: Audited

### 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	36.51	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Working Capital Limit	190.68	CARE-NP A4 [A Four]
Long Term/Short Term Bank Facilities	Non-fund Based Limit	702.88	CARE-NP BB-/A4 [Double B Minus/ A Four]
<b>Total</b>		<b>930.07</b>	

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