

## Ashish Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	485.75	CARE-NP BB+ [Double B Plus]	Reaffirmed
Short Term Bank Facilities	862.50	CARE-NP A4+ [A Four Plus]	Reaffirmed
Long Term/ Short Term Bank Facilities	9,070.00	CARE-NP BB+ / A4+ [Double B Plus/ A Four Plus]	Reaffirmed
<b>Total Facilities</b>	<b>10,418.25</b> <b>(Ten Thousand Four Hundred Eighteen Million and Two Hundred Fifty Thousand only)</b>		

*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 Ashish Nirman Sewa Private Limited (ANS).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ANS continue to be constrained by its leveraged capital structure along with moderate debt service coverage indicators, elongated operating cycle with increasing trend in collection period in FY22 (Audited, FY refers to the twelve-month period ending mid-July) 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 also factor in decline in Total Operating Income (TOI) of the company in FY22 although rebound likely in FY23 supported by improved execution of contracts during the year. The ratings continue to derive strengths from experienced promoters and established track record of operations, healthy and diversified order book position, moderate counter party risk and escalation clause in majority of the contracts.

*Going forward, the ability of the company to successfully execute projects in time and recover contract proceeds; and ability to maintain profitability margins and manage its working capital requirements to support growth considering high funding requirement will be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Moderation in financial performance in FY22

During FY22, ANS's TOI declined ~46% over FY21 to Rs. 1,063 Mn amid lower projects executed by the company during FY22 with slowdown in construction activities in the country mainly owing to lower government capital expenditures. The business generation of the company is through bidding and tendering process and profitability margins directly associated with the nature of contracts executed by the company. Despite lower income, PBILDT margin of the company improved by 1,092 bps to 24.89% in FY22 supported by execution of high margin contracts. Consequently, PAT margin of the company improved by 190 bps to 6.07% in FY22. However, gross cash accruals (GCA) of ANS decreased by ~15% to Rs. 158 Mn in FY22 owing to lower net profits during FY22. Despite moderation in financial performance of the company in FY22, the near-term business prospect of the company is supported by a strong orderbook position of the company, which is likely to result in sequential improvement in FY23.

<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 ANS stood leveraged with overall gearing ratio (including mobilization advance) and overall gearing ratio (excluding mobilization advance) of 2.74x and 2.51x respectively as on mid-July 2022, deteriorated from 2.22x and 2.13x respectively as on mid-July 2021 amid increase in term loans and working capital borrowings to fund its capital expenditure and working capital requirements. Also, total outside liability (TOL) to total net worth and total debt to gross cash accruals remained high at 4.74x and 6.67x as on mid-July 2022, deteriorated from 3.99x and 4.62x respectively as on mid-July 2021 amid increase in bank borrowings of the company. Similarly, the interest coverage ratio of the company deteriorated to 2.48x in FY22 from 3.89x in FY21 mainly due to increase in interest expenses coupled with declining PBILDT in FY22.

#### **Elongated operating cycle with increasing trend in collection period**

The operations of the company are working capital intensive in nature marked by high collection period in FY22. The funds are released only after the work certification process is completed and finalization of the bill is concluded. Customer base includes government departments/ bodies; 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. Consequently, average collection period increased substantially to 358 days in FY22 from 93 days in FY21 mainly due to subdued collection during FY22 with slowdown in construction activities in the country mainly owing to lower government capital expenditures. These factors lead to increased reliance of the company on borrowings to meet its working capital requirements.

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

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

#### **Exposure to volatile interest rate**

ANS's interest rates 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. 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, ANS 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

ANS is promoted by Mr. Rishi Kesh Gauli and his family members, holding total shares of the company. Mr. Rishi Kesh Gauli, managing director, has experience of more than 35 years in construction sector mainly through his association with company. He looks after overall affairs of the company. Mr. Nirman Gauli, Director, has been involved in ANS for over a decade and looks after procurement and related operations of the company. The board is further supported by an experienced professionals across various functions/ departments. The company has long track record of operations of more than 25 years in the construction of various infrastructure projects all over Nepal.

### Healthy and diversified order book position

As on July 10, 2023, the company has unexecuted order book of Rs. 5,866 Mn, which is 5.52x of the income from contract of FY22 providing moderate revenue visibility. The company's order book position remains diversified with projects distribution towards road projects (~52% of total order book) and other segments majorly being airport and building projects mostly from government departments/ bodies. Diversification over various segments could aid the company to hedge revenue concentration risk to some extent. Concentration of government orders exposes the company with risk related to allocation of fund or regulatory changes mainly in the Public Procurement Act and other related regulations. Timely completion of the projects, including ANS'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.

### Moderate counter party risk and escalation clause in majority of contracts

Revenue of ANS is generated majorly 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. 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 cost burden to its customers in a timely manner and maintain profitability margins is critical from credit perspective.

## Industry Outlook

The construction sector in Nepal has been impacted by lower execution in the aftermath of the covid19 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-FY23. 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 FY23 leading to the slippages in the construction portfolio of BFIs. Near term operating environment for construction companies, including ANS, remains challenging and will remain a key monitorable aspect.

## About the Company

Ashish Nirman Sewa Private Limited (ANS) is a Class-A construction company of Nepal, incorporated on August 26, 1998. The company has succeeded an erstwhile proprietorship firm M/s Ashish Nirman Sewa under the same management which was in operations since 1993. The company is engaged in construction and infrastructure sector projects independently as well as through Joint Ventures (JVs).

## Financial Performance

(Rs. Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	1,180	2,062	1,120
PBILDT Margin (%)	22.28	13.97	24.89
Overall Gearing (times)	2.26	2.22	2.74
Interest Coverage (times)	3.81	3.89	2.48
Current Ratio (times)	0.90	1.03	1.13
Total Debt/ Gross Cash Accruals (times)	3.51	4.62	6.67

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	485.75	CARE-NP BB+ [Double B Plus]
Short Term Bank Facilities	Working Capital Loans	862.50	CARE-NP A4+ [A Four Plus]
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	9,070.00	CARE-NP BB+/ A4+ [Double B Plus/ A Four Plus]
<b>Total</b>		<b>10,418.25</b>	

## Contact Us

### Analyst Contact

Mr. Girish Bhatta

+977-01-4012630

[girish.bhatta@careratingsnepal.com](mailto:girish.bhatta@careratingsnepal.com)

Mr. Santosh Pudasaini

+977-01-4012628

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

### Relationship Contact

Mr. Achin Nirwani

+977-9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

### About CARE Ratings Nepal Limited:

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