

Samanantar Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	20.65 (Decreased from 22.12)	CARE-NP BBB [Triple B]	Reaffirmed
Short Term Bank Facilities	11,640.50 (Increased from 11,416.00)	CARE-NP A3+ [A Three Plus]	Reaffirmed
Total Facilities	11,661.15 (Eleven Thousand Six Hundred Sixty One Million and One Hundred Fifty Thousand Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP BBB' assigned to the long-term bank facilities and 'CARE-NP A3+' assigned to the short-term bank facilities of Samanantar Nirman Sewa Private Limited (SNSPL).

Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings assigned to the bank facilities of SNSPL continues to derive strength from established track record of operations along with experienced promoters, above average financial risk profile marked by comfortable capital structure and steady financial performance in FY22 (Audited, FY refers to the twelve-month period ending mid-July). The ratings also factor healthy liquidity profile of the company, presence of backward integration for construction materials, moderate counter party risk, escalation clause in majority of the contracts and moderate operating cycle of the company. The ratings, however, remain constrained by SNSPL's moderate and concentrated order book position, its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings also factor in exposure to volatile interest rates and government regulations and risk of delay in project execution.

Going forward, the ability of the company to profitably scale up its operations amidst high level of competition and manage its working capital requirements to support growth will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters and established track record of operations

SNSPL has three directors in its Board of Directors led by Mr. Achyut Prasad Kharel, Chairman, who has been leading the company since its inception in September 1993. Mr. Kharel has experience of around three decades in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. He is specialized in marketing with experience in advisory/consultancy services. Mr. Niroj Thapailya, Managing Director and Mr. Keshab Prasad Kharel, Director, has considerable experience in construction sector. Furthermore, the board is supported by an experienced team across various functions. The company has established track record of operations of almost three decades in the construction of various infrastructure projects all over Nepal. Also, the company has a track record of completing the project in a time bound manner and received awards for completing the construction projects before the deadline.

Comfortable capital structure and steady financial performance in FY22

During FY22, SNSPL achieved Total Operating Income (TOI) of Rs. 3,121 Mn (FY21: Rs. 3,139 Mn) backed by steady execution of orders at hand. 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

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

the company remained steady at 7.60% in FY22, improved by 35 bps compared to FY21 with higher execution of high margin projects. However, PAT margin of SNSPL increased to 5.31% in FY22 from 4.67% in FY21 aided by lower interest expenses mainly due to scheduled repayment of term loans.

Overall gearing ratio (excluding mobilization advances) of the company stood comfortable at 0.04x as on mid-July 2022, improving from 0.06x as on mid-July 2021. However, the adjusted overall gearing ratio (including mobilization advance, normally interest free) stood relatively higher at 2.95x as on mid-July 2022, improved from 4.84x as on mid-July 2021. Interest coverage ratio stood healthy at around 48.58 times in FY22; also, total debt to GCA stood low at 0.10x in FY22 on account of scheduled repayment of term loans coupled with improvement in GCA. Furthermore, Total Outside Liabilities (TOL)/ TNW of the company stood high at 5.09x in FY22, which improved from 7.52x in FY21. During FY22, SNSPL declared dividend aggregating to Rs. 36 Mn.

Moderate operating cycle and healthy liquidity profile of the company

The working capital cycle of SNSPL appears to be moderate, primarily because the company receives a high payable period of around 60-90 days from its suppliers. As a result, the fund based working capital requirement for the company remains moderate with average utilization of around 46% of its sanctioned working capital borrowings in the last 12 months ended mid-May 2023. SNSPL's inventory holding period was around 19 days in FY22 with major inventory being construction materials such as cement and rods as the company has to maintain inventory at various sites for smooth execution of project works. The funds are released only after the work certification process is completed and finalization of the bill is done. Customer base includes government departments / bodies; therefore, the certification and realization of the bill generally takes the period of around a month. There is usually a delay in the recovery of debtors, and at times, the same exceeds more than two months. Consequently, average collection period of the company was moderate at around 42 days in FY22.

The company has comfortable liquidity position on account of surplus funds available in the form of advance mobilization money and significant amount invested in freely traded listed shares. Generally, the company receives up to 10% of the contract amount as advance mobilization money, which is interest free. Accordingly, the average working capital utilization of the company stands moderate. Also given the inherent cyclicity in the construction industry, lower reliance on external financing remains a positive.

Presence of backward integration for construction materials through group associates

The group associates of the company namely Ashapuri Roda Dhunga Suppliers Private Limited, Samanantar Roda Dhunga Private Limited, Samanantar Concrete Udhyog Private Limited, Samanantar Kripa Shree Private Limited and Sandharbhik Nirman Sewa Private Limited are involved in production of construction materials such as ready-mix concrete (RMC), stone and sand aggregate, sub-base, base course and asphalt etc. as well as transportation activities to ensure continuous material flow from off-site chains to the construction site. Since group associates are involved in primary raw material requirement of the company which benefits it in terms of synergy derived from better inventory management, timely transportation and supply chain integration.

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

Revenue of SNSPL is generated via contracts majorly from government departments. The order book is primarily concentrated towards building 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.

The company has inbuilt price escalation clauses in majority of contracts in order to insulate the company from any adverse fluctuation in construction material prices and labour 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 and maintain profitability margins is critical from credit perspective.

Key Rating Weaknesses

Moderate, albeit concentrated order book position

As on June 08, 2023, the unexecuted orders at hand of the company stood at Rs. 3,311 Mn, which is 1.08x of the income from contract of FY21, providing near term revenue visibility. The order book is primarily concentrated towards building projects (~68%) and road projects by entering into JVs. One of the projects accounts for ~35% of total order book position. Having a concentrated order book on a single project links the company's performance to the same and any delays in execution of one such project can materially impact the company's financial health. Timely completion of the projects would be critical for the business prospects of the company and also has a direct bearing on its margins.

Tender based nature of operations in highly competitive construction industry

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

The company'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, SNSPL 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.

Analytical approach:

CRNL has analysed SNSPL's credit profile by considering the consolidated financial statements of the company comprising SNSPL and its joint venture entities related to the construction works.

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 SNSPL, remains challenging and will remain a key monitorable aspect.

About the Company

Samanantar Nirman Sewa Private Limited (SNSPL) is a Class "A" construction company of Nepal, incorporated on September 06, 2009 with its registered office based in Kathmandu, Nepal. The company is involved in buildings, roads and water management projects etc. In addition to doing projects independently, SNSPL also enters into Joint Ventures (JV) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

(Rs. Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	2,932	3,139	3,121
PBILDT Margin (%)	8.61	7.25	7.60
Overall Gearing (times)	5.28	4.84	2.95
Total Outstanding Liabilities/Tangible Net worth (times)	9.21	7.52	5.09
Interest Coverage (times)	21.79	22.26	48.58
Current Ratio (times)	2.03	2.35	2.08
Total Debt/Gross Cash Accruals (times)	0.28	0.14	0.10

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. Million)	Ratings
Long Term Bank Facilities	Term Loan	20.65	CARE-NP BBB [Triple B]
Short Term Bank Facilities	Fund Based Limits	210.00	CARE-NP A3+ [A Three Plus]
Short Term Bank Facilities	Non Fund Based Limits	11,430.50	CARE-NP A3+ [A Three Plus]
Total		11,661.15	

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About CARE Ratings Nepal Limited:

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