

## Swaminarayan Nirman Sewa Private Limited

### Ratings

Facilities/ Instrument	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	118.73	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	171.27	CARE-NP A4 [A Four]	Reaffirmed
Long Term/Short Term Bank Facilities	2,710.00	CARE-NP BB/A4 [Double B/A Four]	Reaffirmed
<b>Total Facilities</b>	<b>3,000.00</b> <b>(Three Thousand Million Only)</b>		

\* Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the ratings of 'CARE-NP BB' assigned to the long term bank facilities and 'CARE-NP A4' assigned to the short term bank facilities of Swaminarayan Nirman Sewa Private Limited (SNSPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SNSPL continue to be constrained by leveraged capital structure and working capital intensive nature of business. The ratings also factor in highly competitive construction industry coupled with tender based nature of operations, exposure to volatile interest rates and government regulations and risk of delay in project execution. The ratings, however, derive strengths from experienced promoters and moderate track record of operations, growing scale of operations marked by increase in total operating income during FY22 (Audited, refers to the twelve-months period ended mid-July 2022), moderate order book position with diversified portfolio, 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 will be key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Leveraged capital structure

Capital structure of SNSPL stood leveraged with overall gearing ratio (excluding mobilization advance) of 2.41x at the end of FY22 which slightly improved from 2.47x at the end of FY21. Overall gearing ratio (including mobilization advance) stood at 3.59x at the end of FY22, improved from 4.20x at the end of FY21. The improvement was on account of infusion of Rs. 40 Mn as equity in FY22 coupled with accretion of profit to reserves of the company. Furthermore, Total Outside Liabilities (TOL)/ TNW of the company also stood high at 6.01x in FY22, although improving from 9.43x in FY21 aided by increased net worth base in FY22. Interest coverage ratio stood moderate at around 2.33 times in FY22; however, deteriorated from 6.06x in FY21 on account of increased interest expenses which was partially offset by improved PBILDT. Furthermore, total debt to GCA stood high at 6.28x in FY22 on account of increase in total debt at the end of FY22.

##### Working capital intensive nature of business

The operations of the company are working capital intensive in nature marked by higher collection period. SNSPL's average collection period elongated to 74 days in FY22 from 42 days in FY21. SNSPL's customer base includes majorly government

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

departments/ bodies; therefore, the certification and realization of the bill generally takes the period of around 1-2 months. The funds are released only after the work certification process is completed and finalization of the bill is done. However, 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. Although counterparty risk remains low over the long-term, stretched operating cycle could put additional burden in the company's financial profile over the near-term. Operating cycle of the company increased to 23 days in FY22 from negative 35 days in FY21. Amid increasing working capital intensity, the company's reliance on borrowings to meet its working capital requirements is only likely to increase further. The resultant working capital requirements are met largely through bank borrowings which normally results in average utilization of more than 90% of its sanctioned working capital limits. Hence, the company's ability to realize debtors swiftly will be critical from credit perspective.

### **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.

### **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.

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

Sustained requirement for short-term working capital borrowings has led to relatively high interest outgo for SNSPL. SNSPL had Rs. 36 Mn as finance cost in FY22, which increased from Rs. 7 Mn in FY21, thus squeezing its net profitability. 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.

### **Key Rating Strengths**

#### **Experienced promoters and moderate track record of operations**

SNSPL is promoted by Mr. Santosh Kumar Basnet, Managing Director, who has been leading the company since its inception and has long experience of over two decades in the field of construction business. He manages overall affairs of the company with the support of experienced team across various functions. The company has moderate track record of executing projects related to civil construction, irrigation works, canals, embankment works etc. BOD is further supported by an experienced team across various functions/ departments.

**Growing scale of operations marked by increase in total operating income during FY22**

In FY22, SNSPL's Total Operating Income (TOI) grew by ~136% (y-o-y) to Rs. 1,182 Mn boosted by execution of projects during the year. 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. PBILDT margin remained rangebound in between 7%-8% during the last 3 financial years (FY20-FY22). However, PAT margin declined to 1.99% during FY22 from 2.60% during FY21 on account of high interest outgo. Backed by increased TOI, Gross Cash Accruals (GCA) of the company increased by 33% to Rs. 41 Mn in FY22. Furthermore, during 9MFY23 (Unaudited; refers to nine months period ended mid-April 2023), the company booked total income of Rs. 975 Mn. The company's ability to sustain the growth momentum supported by timely execution of the projects at hand will be critical for its business growth going forward.

**Diversified and moderate order book position**

As on April 13, 2023, the unexecuted orders in hand of the company stood at Rs. 1,967 Mn which is around 1.66x revenue from contract in FY22, providing mid-term revenue visibility. The current order book is diversified into irrigation and water supply works, buildings, bridges, parks and road works. Majority of the works are for irrigation and water supply projects ~ 56% from various government authorities and others include construction works such as construction of bridge, building and road works by entering into JVs. Timely completion of the projects, including SNSPL'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 the contracts**

Revenue of SNSPL is generated majorly via contracts from government departments. The order book is primarily concentrated towards water supply projects and 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. 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 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-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**

Swaminarayan Nirman Sewa Private Limited (SNSPL) was incorporated on September 02, 2013, as a Class-A construction company of Nepal with registered office based in Sunsari, Nepal. In addition to doing projects independently, SNSPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

### Analytical Approach

CRNL has analyzed SNSPL's credit profile by considering the consolidated financial statements comprising SNSPL and its joint venture entities related to the construction projects.

### Financial Performance

(Rs. In Million)

Particulars	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	386	500	1,182
PBILDT Margin (%)	7.74	8.36	7.11
Overall Gearing (times)	4.19	4.20	3.59
Interest coverage (times)	7.72	6.06	2.33
Current Ratio (times)	3.95	1.24	2.23
Total Debt/Gross Cash Accruals (times)	1.49	3.45	6.28

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	118.73	CARE-NP BB [Double B]
Short Term Bank Facilities	Working Capital Limit	171.27	CARE-NP A4 [A Four]
Long Term/Short Term Bank Facilities	Non-fund Based Limit	2,710.00	CARE-NP BB/A4 [Double B/ A Four]
<b>Total</b>		<b>3,000.00</b>	

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