

Baniya Nirman Sewa Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	917.96	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	7,837.10	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	8,755.06 (Eight Thousand Seven Hundred Fifty Five Million and Sixty Thousand Only)		

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 Baniya Nirman Sewa Private Limited (BNS).

Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BNS continue to be constrained by its leveraged capital structure coupled with modest order book position resulting in limited revenue visibility. The ratings are also constrained by the tender based nature of operations in highly competitive construction industry, exposure to volatile interest rates and risk of delay in project execution. The ratings, however, derive strength from experienced promoters and established track record of operations, improving financial performance marked by increase in Total Operating Income (TOI) and moderate profitability margins in FY22 (Audited; FY refers to the twelve-month period ending mid-July), escalation clause in majority of the contracts and moderate counter party risk.

Going forward, the ability of the company to successfully execute projects in time and recover contract proceeds and to profitably scale up the business while improving its capital structure will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Leveraged capital structure

The capital structure of BNS was leveraged with overall gearing ratio (including mobilization advance) of around 5x at the end of FY21 and FY22. The relatively higher gearing levels is on account of increase in term loans and working capital limits to fund its growing scale of operations. Also, total outside liability to total net worth and total debt to gross cash accruals remained high at 6.15x and 12.04x respectively as on mid-July 2022 (6.30x and 9.18x, respectively, as on mid-July 2021). The interest coverage was moderate at 1.89x in FY22 (PY: 2.16x).

Modest order book position

The company has unexecuted order book of Rs. 1,750 Mn, which is less than its total operating income of FY22 as on July 11, 2023, thereby providing short term revenue visibility. The order book position of the company is mainly concentrated towards road projects (~83% of total order book) and others include building, canal, bridge and airport works. Timely completion of the projects, including BNS'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. The scale of operations, after completion of the projects at hand, remains unpredictable and would depend on the company's ability to successfully bid for newer projects when they become available.

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

Tender based operations in highly competitive construction industry

Majority of the BNS's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, BNS'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, BNS 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. Although counter party risk over the medium term remains low given the projects are majorly from Government departments, which have been making timely payment to the company in the past, timely debtor realization, particularly at times of economic downturn, remain key challenge for the construction sector.

Key Rating Strengths**Experienced promoters and established track record of operations**

BNS has two directors in its Board of Directors led by Chairman, Mr. Indra Bahadur Baniya, who has more than three decades of experience in the construction industry. He is also the director in Baniya Suppliers Private Limited (supply of construction materials), Ganga Soap and Chemical Industries Private Limited (manufacturing soaps), Times Motors Private Limited (dealer of Isuzu vehicles). He looks after overall activities including policy & strategy making of BNS. Mr. Rishi Raj Baniya, Managing Director, has been involved in BNS for more than a decade and looks after execution of various projects executed by the company. Board of Directors is further supported by an experienced management team. BNS has an established track record of more than two decades in the mining works and civil construction works.

Improving financial performance marked by increase in TOI and moderate profitability in FY22

During FY22, BNS' TOI grew ~13% over FY21 to Rs. 2,566 Mn boosted by execution of higher number of projects during FY22. 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. Profitability margins of the company are directly associated with technical aspect of the contract. The company undertakes contracts which are technical and complex in nature which resulted in satisfactory PBIDLT margin. The company's PBIDLT margin was exceptionally high in FY20 and moderated; yet stable at around 21% in FY21 and FY22. Furthermore, with increase in TOI, PBIDLT also increased by ~12% year-on-year to Rs. 542 Mn in FY22. PAT margin of BNS increased by 186 bps to 4.90% in FY22. Consequently, gross cash accruals increased by around 9% to Rs. 252 Mn in FY22.

Moderate counter party risk and escalation clause in majority of contracts

Revenue of BNS 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 BNS, remains challenging and will remain a key monitorable aspect.

About the Company

Baniya Nirman Sewa Private Limited (BNS), is a Class "A" construction company in Nepal, incorporated as proprietorship firm (Baniya Nirman Sewa) on August 19, 1998 and later converted to private limited company on July 29, 2015 with registered office in Hetauda, Nepal. The company is mainly involved in mining works and civil construction works. In addition to doing projects independently, BNS also enters into joint-ventures with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	992	2,262	2,566
PBILDT Margin (%)	39.27	21.32	21.13
Overall Gearing (times)	4.99	4.90	5.39
Total Outside Liabilities/ Tangible Net worth	6.21	6.30	6.15
Interest Coverage (times)	1.84	2.16	1.89
Current Ratio (times)	1.21	1.20	1.42
Total Debt/ Gross Cash Accruals (times)	10.49	9.18	12.04

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	917.96	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	1,685.70	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	6,151.40	CARE-NP A4 [A Four]
Total		8,755.06	

Contact Us**Analyst Contact**

Mr. Girish Bhatta

+977-01-4012630

girish.bhatta@careratingsnepal.com

Mr. Santosh Pudasaini

+977-01-4012628

pudasaini.santosh@careratingsnepal.com**Relationship Contact**

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com**About CARE Ratings Nepal Limited:**

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