

## Bhimeshwor Drilling Tatha Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,030.77 (Increased from 95.83)	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	805.50 (Increased from 177.31)	CARE-NP A4 [A Four]	Reaffirmed
Long Term/ Short Term Bank Facilities	6,663.73 (Increased from 1,226.86)	CARE-NP BB/ A4 [Double B/ A Four]	Reaffirmed
Total Facilities	8,500.00 (Eight Thousand Five Hundred Million 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 Bhimeshwor Drilling Tatha Nirman Sewa Private Limited (BDNS).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BDNS continue to be constrained by its leveraged capital structure along with moderate debt service coverage indicators, working capital intensive nature of business 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, however, derive strengths from experienced promoters and moderate track record of operations, growing scale of operations with improving profitability in FY22 (Unaudited, FY refers to the twelve-month period ending mid-July) coupled with decent 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 will be key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Leveraged capital structure with moderate debt service coverage indicators

Capital structure of BDNS stood leveraged with overall gearing ratio (including mobilization advance) and overall gearing ratio (excluding mobilization advance) of 4.45x and 3.28x, respectively, as on mid-July 2022, deteriorated from 3.65x and 2.56x respectively as on mid-July 2021 amid increase in term loans and working capital borrowings to fund its growing scale of operations. Also, total outside liability (TOL) to total net worth and total debt to gross cash accruals remained high at 6.08x and 9.25x as on mid-July 2022, deteriorated from 4.71x and 8.04x, respectively, as on mid-July 2021. Furthermore, the interest coverage ratio of the company stood moderate at 2.21x in FY22 (PY: 2.79x). Backed by growing order book, the company's debt levels have also grown correspondingly in FY22 resulting in moderation in solvency and coverage indicators in FY22.

#### Working capital intensive nature of business

The operations of the company are working capital intensive in nature marked by high inventory holding period and moderate collection period. BDNS's inventory holding period was around 95 days in FY22 compared to 42 days in FY21

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

majorly due to piling up of construction materials 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 concluded. 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 two months. Consequently, average collection period of the company was moderate at around 57 days in FY22 (PY: 64 days). 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 BDNS's projects are tender-based government contracts wherein the company has to quote a bid. With multiple players active in the industry, BDNS'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**

BDNS'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, BDNS 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 moderate track record of operations**

BDNS has two directors in its Board of Directors led by Managing Director, Mr. Sahadev Khadka, who has been leading the company since its inception from March 2011. Mr. Khadka has experience of around fifteen years in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. He is responsible for overall management and the execution of projects undertaken by the company. Mr. Krishna Bahadur Khadka, director, has considerable experience in construction sector and look after the overall operations of the company. Furthermore, the board is supported by an experienced team across various functions. The company has moderate track record of operations of more than a decade in the construction of various infrastructure projects all over Nepal.

**Growing scale of operations with improving profitability coupled with decent order book position**

During FY22, BDNS's TOI grew ~35% over FY21 to Rs. 2,284 Mn majorly on account of execution of higher number of projects. 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. Similarly, PBILDT margin of the company improved by 216 bps to 11.53% in FY22. Consequently, PAT margin of the company improved by 9 bps to 2.77% in FY22. Backed by higher sales, gross cash accruals (GCA) of BDNS increased by ~43% to Rs. 123 Mn in FY22. 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.

As on June 14, 2023, the unexecuted orders in hand of the company stood at Rs. 9,343 Mn, which is around 4 times of the income from contract of FY22, providing moderate revenue visibility. The order book is primarily concentrated towards road projects (~75%) and others include water supply, sewerage management and building projects by entering into JVs. Timely completion of the projects 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 BDNS 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 FY22-9MFY23. 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 BDNS, remains challenging and will remain a key monitorable aspect.

**About the Company**

Bhimeshwor Drilling Udhyog was incorporated on March 03, 2011 as a proprietorship firm which was later converted into private limited company as Bhimeshwor Drilling Tatha Nirman Sewa Private Limited (BDNS) on April 10, 2018. It is a Class-A construction company of Nepal with registered office based in Bhaktapur, Nepal. The company is mainly involved in construction of both small and large scale projects mainly relating to roads, deep boring and water supply works etc. in different part of Nepal. In addition to doing projects independently, BDNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for construction projects.

**Analytical Approach**

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

## Financial Performance

(Rs. Million)

For the Period Ended / as at Mid-July,	FY20 (A)	FY21 (A)	FY22 (UA)
Income from Operations	975	1,688	2,284
PBILDT Margin (%)	9.08	9.37	11.53
Overall Gearing (times)	5.26	3.65	4.45
Interest Coverage (times)	3.61	2.79	2.21
Current Ratio (times)	2.09	1.70	1.25
Total Debt/ Gross Cash Accruals (times)	4.30	8.04	9.25

A: Audited; UA: Unaudited

## 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	1,030.77	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	805.50	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	6,663.73	CARE-NP BB/ A4 [Double B/ A Four]
<b>Total</b>		<b>8,500.00</b>	

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### About CARE Ratings Nepal Limited:

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