

## Mountain Infra Company Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	57.01	CARE-NP BB [Double B]	Reaffirmed
Short Term Bank Facilities	90.00	CARE-NP A4+ [A Four Plus]	Reaffirmed
Long Term/ Short Term Bank Facilities	2,302.99	CARE-NP BB/ A4+ [Double B/ A Four Plus]	Reaffirmed
<b>Total Facilities</b>	<b>2,450.00</b> <b>(Two Thousand Four Hundred Fifty Million Only)</b>		

*Details of instruments/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+' to the short term bank facilities of Mountain Infra Company Limited (MIC).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MIC continue to be constrained by its leveraged capital structure with concentrated; albeit moderate order book position providing mid-term revenue visibility, tender based nature of operations. The rating also factors in its presence in the highly competitive construction industry, exposure to volatile interest rates and regulatory risk and risk of delay in project execution. The ratings also take cognizance of moderation in operational performance with decline in Total operating income (TOI) during FY22 (Audited, FY refers to the twelve-month period ending mid-July), although sequential improvement expected in FY23 backed by improved project execution. The ratings, continue to derive strength from experienced promoters and established track record of operations. The ratings also take comfort from moderate operating cycle, moderate counter party risk and escalation clause in majority of contracts.

*Going forward, the ability of the company to successfully execute projects and recover contract proceeds in a timely manner, profitably scale up the operations of the company leading to sustained revenue growth while maintaining profitability margins while improving its overall financial risk profile will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Leveraged capital structure mainly owing to unsecured loans from promoters

Capital structure of the company stood leveraged with overall gearing of 7.95x as on mid-July 2022, deteriorated from 4.11x as on mid-July 2021. This was mainly on account of higher unsecured loans brought in by the promoters. Adjusted overall gearing ratio (excluding loan from promoters, considered as debt) stood 1.64x at the end of FY22, improved from 1.87x at the end of FY21. Furthermore, total outside liabilities to tangible net worth and total debt to gross cash accruals of the company stood very high at 20.18x and 16.15x respectively as on mid-July 2022, deteriorated from 13.51x and 7.32x, respectively, as on mid-July 2021.

#### Suppressed operating performance in FY22, likely improvement in FY23

During FY22, MIC's TOI declined ~16% over FY21 to Rs. 338 Mn amid lower projects executed by the company 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 are directly associated with

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

the nature of contracts executed by the company. The PBILDT margin remained rangebound in between 8%-10% during the past 3 FYs (FY20-FY22), improved by 37 bps to 9.19% in FY22. PAT margin of MIC decreased by 35 bps to 2.88% in FY22 amid lower non-operating income during the year. Interest coverage ratio of the company was moderate at 2.35x in FY22 (PY: 2.54x). However, the company is likely to report sequential improvement in its operating income in FY23 supported by better execution of the projects at hand. MIC has achieved total income of Rs. 370 Mn in 11MFY23.

### **Concentrated albeit moderate order book position**

As on July 06, 2023, the unexecuted orders in hand of the company stood at Rs. 1,105 Mn, which is around 3x of the income from contract of FY22, providing moderate revenue visibility. The order book is primarily concentrated towards building projects (~81%) and others include road, road and drainage 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.

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

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

MIC'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, MIC 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**

MIC has three directors in its Board of Directors led by Managing Director, Mr. Achyut Prasad Bhandari, who has been leading the company since its inception in December 1992. Mr. Bhandari has experience of more than two decades in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. He is responsible for execution of projects undertaken by the company. Mr. Himal Aryal and Ms. Januka Aryal,

Directors, has considerable experience in construction sector and look after overall operations of the company. Furthermore, the board is supported by an experienced team across various functions. The company has long track record of operations of around 3 decades in the construction of both small- and large-scale projects such as road works, building works, river training works and civil works of hydropower projects across the country in different terrains either individually or through its JV entities.

### **Moderate operating cycle**

The working capital cycle of MIC 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 on the moderate side, which resulted in average utilization of around 34% of its sanctioned working capital borrowings during the last 12 months period ended mid-June 2023.

MIC's inventory holding period was around 170 days in FY22 with major inventory being construction materials. One of the major factors that resulted in high inventory was 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 also moderate at around 80 days in FY22 (PY: 73 days).

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

Revenue of MIC is generated via contracts from both government departments and private parties. 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. 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 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 MIC, remains challenging and will remain a key monitorable aspect.

### **About the Company**

Mountain Infra Company Private Limited was incorporated on December 15, 1992 as a private limited company which was later converted into public limited company as Mountain Infra Company Limited (MIC) on May 13, 2019. It is a Class "A" construction company of Nepal with registered office based in Kathmandu, Nepal. The company is involved in civil works of hydropower projects, building, roads and river training projects. In addition to doing projects independently, MIC 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	388	404	338
PBILDT Margin (%)	9.57	8.82	9.19
Overall Gearing (times)	3.55	4.11	7.95
Total Outstanding Liabilities/Tangible Net worth (times)	12.40	13.51	20.18
Interest Coverage (times)	2.40	2.54	2.35
Current Ratio (times)	0.92	0.98	1.04
Total Debt/Gross Cash Accruals (times)	6.43	7.32	16.15

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	57.01	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	90.00	CARE-NP A4+ [A Four Plus]
Long Term/ Short Term Bank Facilities	Non Fund Based Limits	2,302.99	CARE-NP BB/ A4+ [Double B/ A Four Plus]
<b>Total</b>		<b>2,450.00</b>	

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### About CARE Ratings Nepal Limited:

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