

Yeti Builders Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	203.40	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	186.00	CARE-NP A4 [A Four]	Assigned
Long Term/ Short Term Bank Facilities	1,610.60	CARE-NP BB- [Double B Minus/ A Four]	Assigned
Total Facilities	2,000.00 (Two Thousand Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Yeti Builders Private Limited (YBPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of YBPL are constrained by its moderate scale of operations along with concentrated project portfolio. The ratings also factor in its tender based nature of operations in the highly competitive construction industry, exposure to volatile interest rates and regulatory risk and risk of delay in project execution. The ratings, however, derive strength from experienced board of directors, long track record of operations and steady financial profile coupled with moderate capital structure. The ratings also factor in 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 along with improving its overall financial risk profile will be the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Moderate scale of operations with concentrated project portfolio

The company's scale of operations remains moderate with total operating income of Rs. 300 Mn during FY22 (Audited, FY refers to the twelve-months period ending mid-July). The company's ability to substantially scale up to larger sized contracts having better operating margins is constrained by its comparatively low tangible net worth of Rs. 76 Mn as on mid-July 2022. Moderate scale of operations in a competitive industry could limit the pricing power and benefits derived from economies of scale. Though, the risk is partially mitigated by the fact that the scale of operations is growing steadily, particularly factoring in the company's unexecuted orders in hand of the company of Rs. 1,669 Mn as on mid-August 2023, providing moderate revenue visibility going forward.

The order book is primarily concentrated towards road projects which exposes company towards risk of sectoral concentration. Also, concentration of government orders exposes the company with risk related to allocation of fund or regulatory changes mainly in the Public Procurement Act and other related regulations. Furthermore, one of the projects accounts for ~45% of the 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 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. Though the order book is concentrated; however, counter party risk remains moderate

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

given the projects are from government departments, which normally have been making timely payment to the company in the past.

Tender based nature of operations in highly competitive construction industry

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

YBPL's interest expenses 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. Thus, funding taken by the firm is exposed to volatile interest rate.

Risk of delay in project execution

Given the nature of projects awarded, YBPL 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 Board of Directors and long track record of operations

YBPL has four directors in its Board of Directors chaired by Mr. Bhim Raj K.C., who has been leading the company since its inception in 2008. Mr. K.C. has experience of over a decade in the construction sector which bodes well for the overall business prospects of the company in an increasingly competitive industry. Furthermore, the board is supported by an experienced team across various functions. The company has long track record of operations of over a decade in the construction of various infrastructure projects all over Nepal.

Steady financial performance with moderate capital structure

Total Operating Income of the company grew ~8% year-on-year to Rs. 300 Mn in FY22. 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 of the company improved by 218 bps to 13.81% in FY22 with higher execution of high margin projects. Despite increase in PBILDT of the company, PAT margin declined by 6 bps y-o-y mainly due to increase in finance cost of the company during FY22 amid increased interest rates. Gross Cash Accruals (GCA) of the company increased by ~19% to Rs. 27 Mn during FY22.

Capital structure of YBPL stood moderate with overall gearing ratio (including mobilization advance, normally interest free) of 2.38x as on mid-July 2022, deteriorating from 1.44x as on mid-July 2021. Overall gearing ratio (excluding mobilization

advance) stood at 1.96x as on mid-July 2022, deteriorated from 1.40x as on mid-July 2021. Gearing levels deteriorated in FY22 amid increasing working capital borrowings and unsecured loans from promoters for funding working capital needs and mobilization advance received by the company. Interest coverage ratio of the company was moderate at 3.25x in FY22 which deteriorated from 3.96x in FY21 majorly on account of increase in interest expenses. Total debt/ GCA of the company stood high at 5.44x in FY22 (PY:4.40x).

Moderate operating cycle

The working capital cycle of YBPL appears to be moderate with net operating cycle of around 43 days in FY22, primarily on account of relatively low collection period. Additionally, the company enjoys a high payable period of around 60-90 days from its suppliers, resulting in moderate cash conversion cycle. YBPL's inventory holding period was around 132 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, which are mainly in hilly region of the country, 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. Consequently, average collection period of the company was moderate at around 23 days in FY22 (PY: 13 days).

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

About the Company

Yeti Builders Private Limited (YBPL) is a class "A" construction company of Nepal incorporated on January 21, 2008 with its registered office based in Lalitpur, Nepal. The company is involved in construction of roads, bridges, irrigation works etc. across Nepal. In addition to doing projects independently, YBPL also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

Financial Performance

For the Period	(Rs. Million)		
	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	103	279	300
PBILDT Margin (%)	31.92	11.63	13.81
Overall Gearing (times)	1.22	1.44	2.38
Total Outstanding Liabilities/Tangible Net worth (times)	2.25	2.83	3.84
Interest Coverage (times)	2.78	3.96	3.25
Current Ratio (times)	1.32	1.13	1.34
Total Debt/Gross Cash Accruals (times)	4.20	4.40	5.44

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	203.40	CARE-NP BB- [Double B Minus]
Short Term Bank Facilities	Fund Based Limits	186.00	CARE-NP A4 [A Four]
Long Term/ Short Term Bank Facilities	Non Fund Based Limits	1,610.60	CARE-NP BB-/ A4 [Double B Minus/ A Four]
Total		2,000.00	

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About CARE Ratings Nepal Limited:

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