

Raman Construction Private Limited: [ICRANP] LBB-/A4 assigned

April 4, 2022

Summary of rating action

Instrument*	Rated amount (NPR million)	Rating action
Fund-based; long-term limits	550.0	[ICRANP] LBB-; assigned
Fund-based; short-term limits	2,446.3	[ICRANP] A4; assigned
Non-fund based; short-term limits	7,945.1	[ICRANP] A4; assigned
Total	10,941.4	

*Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB- (pronounced ICRA NP L double B minus) to the fund-based, long-term limits of Raman Construction Private Limited (RCPL). ICRA Nepal has also assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term, fund-based and non-fund based limits of the company.

Rationale

The assigned ratings factor in the company's long track record of operations in the Nepalese construction sector (operating since 1990) and its experienced promoters. The ratings also positively factor in the relatively large scale of operations of the company with several large-scale projects from diverse sectors completed in the last four years (ending mid-July 2021), which increases its bidding capacity, supporting its future revenue outlook. The ratings are also comforted by the sizeable order book of work-in-hand projects with a total contract amount of ~NPR 39 billion as of mid-October 2021. Of the work-in-hand projects, contract value of NPR 9.3 billion (RCPL's share) remains to be executed, which is equivalent to ~8.3 times of RCPL's FY2021 operating income, providing adequate revenue visibility for the medium term. RCPL also has adequate revenue growth potential with a bidding capacity of an additional NPR 13.8 billion (as on mid-October 2021), which remains a rating positive. ICRA Nepal also notes the low receivables risk as its projects are entirely related to Government bodies. Moreover, the Government's impetus to infrastructure development in the country is a positive for the growth of contractors like RCPL.

The ratings, however, are constrained by the moderate financial profile of RCPL, characterised by growing leverage and weakening of debt servicing indicators. The gearing of RCPL has been increasing with TD/TNW increasing from 2.0 times in FY2019 to 3.7 times in FY2021. The ratings are further constrained by the company's high working capital intensity with net working capital/ operating income (NWC/OI) of up to 123% recorded in FY2021, which increases RCPL's dependence on external financing for meeting its working capital requirement while impacting its gearing level and debt coverage metrics. Growing leverage is partly because of RCPL's funding support to its sub-contractors (including sister unit) and JV partners, whose corresponding revenue is not reflected in RCPL's financials, thereby creating a mismatch. Rising leverage is also partly because of working capital intensive projects undertaken by the company (especially in large sized water supply projects). Coupled with the limited on-balance sheet liquidity cushion, this remains a concern for the company's short-term liquidity, which negatively impacts its timely debt-servicing ability. This has led to occasional delays in bank debt servicing in the past. Its project progress is also a rating concern with many of the under-construction projects facing delays. This also exposes RCPL to the risk of non-performance of contracts, such as bank guarantee (BG) invocation/ blacklisting.

Key rating drivers

Credit strengths

Long track record of operations – Incorporated in 1990, RCPL has a long track record of operations in the Nepalese construction sector. It is classified as a Class A contractor as per the classification norms of public procurement regulations, factoring in its prior experience, financial strength and resources.

Large scale of operations and adequate headroom in bidding capacity – RCPL is one of the larger public contractors with ~73 number of projects in hand with total contract amount of ~NPR 39 billion as of mid-October-2021 out of which only 11 are sole contractor projects while the rest are under Joint ventures (JVs). RCPL has an order book share (combined – share from JV plus sole) with contract value of ~NPR 22.7 billion. Out of this, contract value of NPR 9.3 billion (RCPL's share) remains to be executed. This is equivalent to ~8.3 times the operating income of RCPL for FY2021 which provides adequate revenue visibility for the medium term. Moreover, RCPL had a bidding capacity of ~NPR 13.8 billion for additional projects as of mid-October 2021. Given the adequate headroom in the bidding capacity and the infrastructural gap in the country, the medium-term outlook remains comfortable.

Low counterparty risk – RCPL deals with projects primarily related to the public sector wherein the employer is either the Government of Nepal, its ministries, or related agencies. As of mid-October 2021, the entire pending order book comprised Government contracts. As the clients are primarily Government entities, counterparty credit risk remains low and mitigates the receivable risk arising from high debtor days to a large extent.

Broad sectoral diversification – RCPL has completed projects in a wide range of segments related to infrastructure development in the last four years (ending FY2021). Projects completed by the company include roads, airport runway, bridges, river protection and training works, buildings, work related to railway line, sewer system and water supply. The company has completed ~63 projects in the past four years (ending FY2021) with a combined contract value of ~NPR 19.2 billion in terms of overall contract size out of which ~50% contribution (out of RCPL's share from overall contract) in contract value comes from 27 road projects followed by ~23% contribution from 10 water supply projects. Moreover, as per the management provided work-in-hand details as of mid-October-2021, ~30% of work in hand projects comprises of road projects, ~30% comprising of water supply projects and ~16% by irrigation and hydropower projects in terms of overall contract size, among various others. The completion of wide variety of projects supports future revenue growth prospects of the company as it qualifies the company to be able to bid and acquire contracts from a broader range of projects.

Credit challenges

Weakening financial profile with increasing debt – Financial profile of RCPL is characterised by growing leverage and weakening debt servicing indicators on a standalone basis. The gearing of RCPL has been increasing with TD/TNW increasing from ~2.0 times in FY2019 to ~3.7 times in FY2021. The debt level of the company has been growing with the growth in its portfolio of work-in-hand projects as it has been financing its JVs/sub-contractors via its own books. Since the corresponding revenue/ profits from JVs are not reflected in RCPL's financials, its revenue remains weak vis-à-vis debt levels. The increasing debt levels combined with decreasing standalone operating income has led to a weakening of coverage indicators. Interest coverage ratio (ICR) of the company deteriorated from ~2.0 times for FY2019 to ~1.4 times for FY2021 while DSCR deteriorated from ~1.4 times to ~1.2 times for the same period. The debt levels have been impacted by the escalating working capital intensity of the company due to delay in project handovers, sizeable volume of working capital intensive projects in hand (mainly water supply projects where large volume of material purchase is required upfront) as well as increasing amount of retention money held by the Government.

High working capital intensity resulting in stretched liquidity – The company has high working capital intensity (NWC/OI up to 123% for FY2021) with long cash cycles. RCPL's cash cycle has been elongating due to increasing inventory days coupled with declining revenues. Inventory days, which were at ~136 days for FY2020, have shot up to ~412 days in FY2021 resulting in a prolonged cash cycle of 411 days despite sizeable credit period allowed by the creditors of ~57 days for FY2021. The working capital intensity, which was at ~56% (NWC/OI) for FY2020, had reached ~123% for FY2021. Also, as observed in the construction sector, payments for Government projects are made towards the end of the financial

year resulting in the delayed receipt of payments by contractors. This leads to short-term liquidity issues for the company and negatively impacts its timely debt-servicing ability.

Project execution risk with most projects running behind schedule – A large portion of the company’s projects are currently running behind schedule. The projects have been impacted by the lockdowns as well as operational and supply disruptions due to the pandemic. In addition, Government infrastructure projects in Nepal witness delays mainly on account of factors like delays in site clearance, obstruction by local residents over compensation issues, bureaucratic hurdles, etc. The delays witnessed in these projects elevate the level of project execution risk.

Analytical approach

For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Raman Construction Private Limited is a class-A contractor that primarily deals with public infrastructure projects, such as roads, bridges, and water supply, as well as projects spanning various Government segments. The company was established as a sole proprietorship in 1990 and was subsequently converted into a private limited company in 1999. Mr. Bal Ram Mahato, Mr. Raman Mahato and Mr. Pawan Mahato are the shareholders of the company with stakes of 20%, 40% and 40%, respectively. Mr. Raman Mahato is the Executive Director of the company.

Key financial indicators (standalone)

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)
Operating income (OI; NPR million)	1450.6	1783.1	2032.8	1802.8	1116.2
OPBDITA/OI (%)	18.5%	17.3%	17.4%	16.7%	25.0%
Total debt/Tangible net worth (TNW; times)	2.7	2.1	2.0	2.5	3.7
Total outside liabilities/TNW (times)	4.2	3.8	3.3	3.4	4.5
Total debt/OPBDITA (times)	3.6	3.9	3.7	5.3	8.6
Interest coverage (times)	3.1	2.1	2.0	1.5	1.4
DSCR (times)	2.3	1.5	1.4	1.2	1.2
Net working capital/OI (%)	60%	73%	38%	56%	123%
Current ratio (times)	1.6	1.7	1.0	1.3	1.4

Source: Company data

Annexure-1: Instrument details

Instrument	Rated amount (NPR million)	Rating Action
Fund Based; Long-term Limits		
Hire Purchase loans	550.0	[ICRANP] LBB-; assigned
Total Fund Based; Long-term Limits (A)	550.0	
Fund Based; Short-term Limits		
Contract loans*/ Short-term loans/Trust Receipt loans/Demand loans	2,446.3	[ICRANP] A4; assigned
Total Fund Based; Short-term Limits (B)	2,446.3	
Non-fund Based; Short-term Limits		
Bid bond Guarantee/ Performance bank guarantee/ Advance Payment Guarantee/ Letter of credit	7,945.1	[ICRANP] A4; assigned
Total Non-fund Based; Short-term Limits (C)	7,945.1	
Grand Total (A+B+C)	10,941.4	

*Contract loans includes multi-year loans and can be interchangeable with long-term limits

Analyst Contacts:

Mr. Sailesh Subedi, (Tel No. +977-1-4419910/20)
sailesh@icranepal.com

Mr. Devendra Dongol, (Tel No. +977-1-4419910/20)
devendra@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha, (Tel No. +977-1-4419910/20)
barsha@icranepal.com

About ICRA Nepal Limited:

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For more information, visit www.icranepal.com



ICRA Nepal Limited,

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone: +977 1 4419910/20

Email: info@icranepal.com

Web: www.icranepal.com

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