

## Saras Builders Private Limited: Ratings reaffirmed

October 03, 2023

### Summary of rating action

Instrument	Last Rated Amount (NPR million)	Current Rated Amount (NPR million)	Rating action
Long-term loan limits	5.51	11.10	[ICRANP] LB+; reaffirmed
Short-term loan limits	858.00	560.91	[ICRANP] A4; reaffirmed
<b>Total</b>	<b>863.51</b>	<b>572.01</b>	

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

### Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) to the long-term loan limits of Saras Builders Private Limited (SBPL or the company) and the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loan limits of the company.

### Rationale

The ratings continue to remain constrained by SBPL's relatively smaller scale of operations and its limited competitiveness in acquiring fresh business, as reflected in its high reliance on JVs for new project sourcing. Following the 12<sup>th</sup> amendment of the Public Procurement Regulations limiting a contractor to five projects (including JV) at a time, the prospects of securing joint ventures has dampened to some extent which remains a concern. SBPL's small operating profitability and reserves also makes its vulnerable towards credit and/or liquidity stress that could arise from non-performance of contracts, increase in working capital intensity, etc. As of mid-September 2023, ~41% of the pending work (by value) to be executed are running behind the original schedule, which could lead to non-performance related penalties such as guarantee devolvement/blacklisting, etc. Although the long-term opportunities for construction contractors are likely to remain healthy given the large infrastructural deficit in the country, the intense competition in the sector and the bidding requirement for public projects, results in an uncertainty on new order inflows and long-term revenue prospects. The ratings also factor in SBPL's exposure to regulatory risks as the company primarily deals in public projects.

Nonetheless, the assigned ratings factors in the company's long track record in the construction sector, mainly through erstwhile Kunwar Nirman Sewa (since 1996), whose business was taken over by SBPL in 2017. The ratings also favourably factor in the adequate order book, with the value of pending contracts to be executed equivalent to ~4 times of the standalone FY2023 operating income, providing near-to-medium term revenue visibility. The ratings also consider the company's progressive operating margins and comfortable debt coverage indicators in recent years, despite the low scale. The ratings also consider the positive business outlook for contractors, given the Government of Nepal's (GoN) impetus to infrastructural development in the country. The ratings further take comfort from the low counter-party default risk as entire projects-on-hand relate to the bodies and agencies of the Government of Nepal (GoN).

Going forward, the company's ability to scale-up its operations, timely execute the projects, strengthen the operational cashflows, profitability and reserves position to withstand any potential risks, will remain as key rating sensitivities.

### Key rating drivers

#### Credit strengths

**Long track record of operations** – The company's promoters have a long presence in the Nepalese construction sector, operating since 1996 under Kunwar Nirman Sewa, primarily at the regional level. SBPL was incorporated to take over the firm's business in 2017 and is now operating as a Class-C contractor as per the classification norms of the public

procurement regulations. The promoters, over the years, have garnered significant experience in the domestic construction industry.

The company has made healthy additions of new contracts in the recent times (mostly under joint venture arrangement), resulting in an adequate order book position vis-à-vis its operating revenue. As of mid-September 2023, pending value of contracts to be executed is worth ~NPR 222 million (on a consolidated basis including proportionate share in joint venture projects), which is equivalent to 3.8 times of FY2023 standalone operating income, providing adequate revenue visibility.

**Low counter-party risk** – As of mid-September 2023, all projects with SBPL are related to the public sector, where the employer is either the Government of Nepal, its ministries, or the related agencies. The company largely sources its projects from local-level Government bodies. Hence, the counterparty credit risk remains low, despite occasional delays in release of payments.

**Improving profit margins and adequate debt service indicators** – The company's operating profit remains progressive over the past few years, given the increasing size of projects executed. Hence, SBPL's debt service indicators remain comfortable despite its increasing short-term loans. The company's interest coverage ratio (ICR) and debt service coverage ratio (DSCR) remained adequate at ~2.9 times and ~1.4 times respectively for FY2023. The company's ability to maintain its margins while scaling up would remain crucial in ensuring adequate debt service indicators, given the volatility in interest rates in the country.

## Credit Challenges

**Small scale of operations and challenges to scalability**– SBPL, despite having an operational track record of over two decades, continues to operate on a lower scale compared to its peers. Its small scale, revenue and reserve base also makes the company less resilient towards any incremental business/liquidity shocks. Moreover, given the intensely competitive construction sector business and frequently changing public procurement regulations, the small-scale players are likely to face challenges in scaling up their business.

**Project execution risk** – As of mid-September 2023, ~41% of the company's work-in-hand projects are running behind their original completion schedule or are nearing their deadline without significant progress. This exposes the company to risks arising from non-performance such as bank guarantee (BG) devolvement, blacklisting, liquidated damages, etc., which could erode the financial profile and competitive position of the company.

**Intense competition and regulatory risks** – The construction sector of Nepal is highly competitive, given the presence of large number of players. Moreover, the bidding requirement for public projects (entire portfolio for SBPL) creates uncertainty for the company's future revenue inflows.

Being a company concentrated in the public construction sector, SBPL remains exposed to the risk of regulatory changes, mainly in the Public Procurement Act and the related regulations. This risk remains further underlined considering the frequent regulatory changes brought about by the amendments to the public procurement regulations by the Government in the last two to three years. Further, any stringent changes in the Act and regulations could have a material impact on players like SBPL.

**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](#)

[Rating Methodology for Construction Entities](#)

## About the company

Saras Builders Private Limited (SBPL) was incorporated in December 2017 as a C-Class private construction company and it took over the business of erstwhile Kunwar Nirman Sewa, a sole proprietorship firm established in 1996. The company deals in civil construction works, primarily related to road, bridge, and building projects in the public sector. SBPL mainly works with local-level Governments and primarily sources its projects through JVs with other construction companies. SBPL is a privately held company where the entire equity stake is held by two individuals (family members), Mr. Ramesh Kumar Kunwar and Mr. Birendra Kumar Kunwar, who hold 50% stake each.

## Key Financial Indicators:

Particulars	Audited				Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023
Operating Income-OI (NPR Million)	92.9	77.4	82.6	68.7	57.7
OPBDITA/OI (%)	3.9%	6.7%	9.8%	10.7%	11.9%
Total Debt/Tangible Net Worth-TNW (times)	1.4	1.2	1.7	1.7	1.4
Total Outside Liabilities/ TNW (times)	1.8	1.8	2.7	3.6	2.6
Total Debt/OPBDITA (times)	4.2	2.8	3.2	3.9	3.8
Interest Coverage (times)	1.5	2.4	2.9	2.2	2.4
DSCR (times)	0.9	1.2	1.4	1.4	1.4
Net working capital/OI (%)	19%	25%	37%	54%	67%
Current Ratio	1.5	1.4	1.3	1.2	1.6

## Annexure-1: Instrument Details

Instrument	Rated Amount (NPR million)	Rating action
<b>Long-term loan limits</b>	<b>11.10</b>	[ICRANP] LB+; reaffirmed
Fund based; Hire Purchase Loan	11.10	
<b>Short-term loan limits</b>	<b>560.91</b>	[ICRANP] A4; reaffirmed
Fund based; Overdraft/Demand Loan	52.15	
Non-fund based; Advance Payment Guarantee/ Bid Bond/ Performance Bond/ Line of Credit	508.76	
<b>Total</b>	<b>572.01</b>	

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## About ICRA Nepal Limited:

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