

## Synergy Builders Private Limited: [ICRANP] LB/A4 assigned

September 04, 2023

### Summary of rating action

Instrument	Rated amount (NPR million)	Rating action
Fund based; long-term loan limits	126.9	[ICRANP] LB; assigned
Fund based; short-term loan limits	295.0	[ICRANP] A4; assigned
Non-fund based; short-term loan limits	1,562.1	
<b>Total</b>	<b>1,984.0</b>	

### Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB (pronounced ICRA NP L B) to the long-term loan limits of Synergy Builders Private Limited (SBPL) and also assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loan limits (including non-fund based limits).

### Rationale

The ratings are mainly constrained by SBPL's weak financial profile, characterised by a high indebtedness ratio (total outsider liabilities to tangible net worth, TOL/TNW) of 7.1 times and total debt (TD) to OPBITDA of 4.0 times as of mid-July 2023. The ratings are also impacted by SBPL's stretched liquidity profile with relatively higher working capital intensity (net working capital to operating income ratio, NWC/OI of ~37% as of mid-July 2023). Rating concerns also arise from the limited sectoral diversification with ~87% of the pending work as of mid-July 2023, relating towards the building segment. The ratings are also constrained by the execution risks, considering ~42% of the pending work (by value) as of mid-July 2023, is running behind schedule, which increases risks emanating from non-performance such as guarantee devolvement/blacklisting, etc. The ratings also factor in the intense competition in the industry, primarily in public sector projects, which remain SBPL's key area of focus, thus also exposing it to regulatory risks. The ratings are also constrained by SBPL's relatively modest scale of operations, despite its long presence in the industry.

However, the assigned ratings factor in SBPL's long operational track record (over three decades) in the Nepalese construction sector and its experienced promoters. The ratings also take note of the company's comfortable pending order book position and the positive industry outlook, given the Government of Nepal's (GoN) impetus to reduce the country's large infrastructure deficit. The company is also exposed to low counterparty risks, as most of the projects-on-hand relate to the bodies and agencies of the GoN.

### Key rating drivers

#### Credit strengths

**Long operational track record, experienced promoters and comfortable order book** – SBPL has been operating in the Nepalese construction sector since 1994 and is a Class-A contractor as per the classification norms of the industry. The experience garnered by the promoters over the years has aided it in securing adequate fresh orders, thus leading to a comfortable pending order book position of 3.4 times of FY2023 revenues. This provides near-term revenue visibility despite the nominal growth during FY2023. Moreover, the company's adequate bidding capacity of ~NPR 2.2 billion as of mid-July 2023 offers comfort to the scalability perspective.

**Low counterparty payment default risks as most of the projects handled are Government projects** – As of mid-July 2023, ~69% of the company's pending work-in-hand was from the public sector, where the employer is either the GoN, its ministries, or the related agencies/local-level Government bodies. Hence, the counterparty payment default risk remains low, despite the delays in receiving payments due to long bureaucratic processes.

## Credit challenges

**Weak financial profile** – SBPL’s financial profile remains weak, characterised by gearing of 3.1 times, TOL/TNW of 7.1 times and TD/OPBDITA of ~4.0 times in FY2023, despite recent improvements through equity infusion. These leverage indicators remained elevated mostly on account of high short-term loan utilisation along with increasing fixed term loans (including the recently converted permanent working capital loan) and its relatively modest scale of operation against the debt exposure. Further, the debt service indicators of the company remained modest with DSCR of 1.4 times for FY2023, which is likely to face pressure considering the increasing term debt burden.

**Stretched liquidity** – The company’s working capital intensity increased to ~37% for FY2023 (~30% for FY2022), primarily on account of high debtor and inventory days, despite sizeable creditors support. Further, SBPL’s liquidity profile remains stretched, evident from the sustained overutilisation of short-term loans against its drawing power (284% as of mid-July 2023). Additionally, the delayed payments by the Government bodies and the slowdown in the Government’s capital expenditure, have further aggravated the company’s liquidity profile.

**Project execution risk associated with slow-moving projects and sectoral concentration** – SBPL’s project execution risk remains high as ~42% of the work-in-hand (by value) was running behind schedule. The company has also recently bagged few large-sized projects where the company’s ability to deliver remains untested. Given the company’s moderate net worth base and operating profit, the company remains less equipped to handle any risk arising from non-performance of such high-value contracts. Established in 1994, SBPL has a relatively longer track record of operations. The company’s revenues also remain on a moderate scale compared to its track record and as of mid-July 2023, the business was also concentrated towards the building segment (~87% of pending order book), which exposes it to sectoral concentration risks.

**Intense competition and regulatory risks** – The construction sector in Nepal is highly competitive, given the presence of a large number of players, thereby adding uncertainty to the new order inflows. The company also plans to gradually bid for large-scale public projects where the competition already remains high. Moreover, SBPL, being a largely public sector-dependent construction company (69% of the total pending order book related to public sector as on mid-July 2023), 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 in through the amendments. Rating concerns also emanate from the practice of underbidding in majority of the projects, which could affect the company’s profitability and its ability to deliver projects within time and cost estimates.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodologies as indicated below.

### Links to the applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

## About the company

Synergy Builders Private Limited (SBPL) was established in 1994 by Mr. Arjun Bhattarai, who holds a 100% stake in the company. SBPL is registered as a Class-A construction company and has presence across segments such as building, roads, etc. The company is a domestic player and mostly deals in public contracts, which was ~70% of the pending work-on-hand as of mid-July 2023.

## Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Operating income (OI; Revenues in NPR million)	268	427	522	542
OPBDITA/OI (%)	13%	11%	9%	13%
Total debt/Tangible net worth (TNW; times)	2.2	3.8	4.5	3.1
Total outside liabilities/TNW (times)	6.2	7.4	10.2	7.1
Total debt/OPBDITA (times)	3.2	5.1	5.7	4.0
Interest coverage (times)	1.8	2.4	1.8	2.1

	<b>FY2020 (Audited)</b>	<b>FY2021 (Audited)</b>	<b>FY2022 (Audited)</b>	<b>FY2023 (Provisional)</b>
DSCR (times)	1.3	2.0	1.2	1.4
Net working capital/OI (%)	37%	42%	30%	37%
Current ratio	1.0	1.0	0.9	1.1

Source: Company Data

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### **About ICRA Nepal Limited:**

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