

Pashupati Shivajee Construction Private Limited: [ICRANP] LBB/A4 assigned

February 26, 2024

Summary of rating action

Instrument*	Rated Amount (NPR million)	Rating Action
Long-term limits	11	[ICRANP] LBB; assigned
Short-term limits	488	[ICRANP] A4; assigned
Proposed limits (unallocated)	1,501	[ICRANP] LBB/A4; assigned
Total	2,000	

* 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) to the long-term limits of Pashupati Shivajee Construction Private Limited (PSCPL/company) and a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to its short-term limits.

Rationale

The ratings assigned factor in the company's satisfactory financial indicators characterised by its increasing revenue and profit accruals, translating into low gearing and good debt coverage indicators. ICRA Nepal also positively factors experience of the promoters in the construction sector, which remains positive for the incremental business growth of the company. The ratings take comfort from the positive business outlook for contractors, given the Government of Nepal's (GoN) impetus to the infrastructural development, amid the infrastructure deficit in the country. This is expected to provide opportunities for contractors like PSCPL, which is a positive for their growth and profitability. The ratings also consider the low counterparty default risk as major projects on hand are related to the bodies and agencies of the GoN, despite some concerns arising from delayed release of payment by public agencies to the contractors in the recent past.

The ratings are, however, constrained by PSCPL's low scale of operations (albeit increasing) and limited number of projects, giving rise to concentration risk as well as limiting the revenue visibility (proportionate share of pending order book stood at ~2x of FY2023 standalone revenue). As the company largely deals in subcontract works, its ability to secure new business remains untested over a longer time. The company's ability to scale up as well as maintain/improve liquidity commensurate with business growth amid the volatility in debtor, inventory and creditor days also remains to be seen. The ratings are also constrained by the increased competition with many organised and unorganised players and the competitive bidding process in the construction sector. ICRA Nepal also takes note of the cyclical nature in real estate, the Governments' moderate capital expenditure and frequent changes in public procurement regulations (given concentrated exposure in public projects), which can affect the profile of construction sector players including PSCPL.

Going forward, PSCPL's ability to increase its business, manage working capital, strengthen its capitalisation, and lower its overall gearing (at TOL/TNW level), will be the key rating drivers for the company.

Key rating drivers

Credit strengths

Experienced team and increasing revenue – PSCPL, established as a proprietorship firm, was converted into a private limited company on August 04, 2016, under the leadership of Mr. Kamal Prasad Kadariya, who has more than three decades of experience in the construction sector. In the last two years ending FY2023, the company reported good growth

in revenue albeit, on a low base. Good sectoral experience of the promoters has helped the company generate good traction in the industry, which remains a positive for its incremental growth prospects.

Healthy financial profile aided by low debt and working capital intensity – PSCPL’s financial profile remains healthy with a gearing of 0.4 times with similar level of total debt/OPBDITA as of mid-July 2023. This stems from low funded bank debt in its books (NPR 20 million of funded limit) and improved OPBITDA, following good revenue growth in FY2023. Given low bank debt, PSCPL’s interest coverage and debt service coverage ratios stood comfortable at 5.5x and 4.5x, respectively, for FY2023. The working capital intensity (NWC/OI) in FY2023 was 8% (34% in FY2022), aided by reduced debtor and inventory days, following completion of major works in FY2023. The company has adequate headroom in its working capital drawing power as of mid-July 2023 (albeit on a low base), which also remains a positive.

Low counterparty risk – The current projects being managed by PSCPL are mostly related to the public sector, wherein the employer is either the GoN, its ministries, or related agencies. This results in a low counterparty credit risk. However, occasional delays in payment in the recent years resulted in commensurate liquidity pressure for the contractors.

Credit challenges

Limited revenue visibility – PSCPL’s outstanding order book is low and also remains concentrated towards one/two projects that the company has recently secured. Though the revenue for FY2023 improved significantly (albeit on a low base) on account of major works completion in FY2023, its ability to sustain the revenue growth momentum will remain crucial for its long-term sustainability. As PSCPL’s current work-in-hand comprises mostly of the sub-contract work, its ability to secure fresh orders through competitive bidding also remains untested.

Intense competition and regulatory risks – Nepal’s construction sector is highly competitive, given the presence of considerable number of players. Moreover, the bidding requirement for the public projects (wherein the company’s focus lies) creates uncertainty regarding the future revenue inflow.

PSCPL’s concentration in public sector work also exposes it to the risk of regulatory changes in the Public Procurement Act and related regulations. This risk remains further accentuated given the frequent regulatory changes in recent years. Any future amendments imposing stricter provisions regarding project deadlines and/or provisions of liquidated damages could have a greater impact on public-contract focused players like PSCPL. The company is exposed to the risk of variations in input materials as well as interest-rate volatility risk, which could impact on the company’s profitability and internal accruals.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the Company

Established as a proprietorship firm on December 30, 1992, and converted into a private limited company on August 04, 2016, Pashupati Shivajee Construction Private Limited (PSCPL) deals in civil construction and interior works of Government buildings, schools, courts, resorts, etc.

It is a family-held private company wherein Mr. Kamal Prasad Kadariya (Chairperson) along with his spouse and son hold the entire equity stake.

Key Financial Indicators

Amount in NPR million	Audited			
	FY2020	FY2021	FY2022	FY2023
Operating income (OI)	36	47	163	828
OPBDITA/OI (%)	18%	21%	8%	6%
Total debt/Tangible net worth (TNW; times)	0.5	5.5	4.1	1.4
Total outside liability/TNW (times)	0.7	6.3	6.5	3.2
Total debt/OPBDITA (times)	0.5	5.5	4.1	0.4
Interest coverage (times)	2.1	2.1	2.1	5.5
DSCR (times)	2.1	2.1	1.9	4.5
NWC/OI (%)	-2%	105%	34%	8%
Current ratio	5.5	1.1	1.1	1.3

Annexure-1: Instrument details

Details (Limit in NPR Million)	Limits Rated	Rating
Long Term Loan (A)	11	
Fund Based- Term Loan	11	[ICRANP] LBB; assigned
Short Term Loan (B)	488	
Fund-based; Cash Credit	20	[ICRANP] A4; assigned
Non-fund based; bid bond BG, Advance Payment BG	468	
Proposed Limits- unallocated (C)	1,501	[ICRANP] LBB/A4; assigned
Total Limits (A+B+C)	2,000	

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About ICRA Nepal Limited

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