**PRESS RELEASE**

**SOUTH ASIAN INFRASTRUCTURE PRIVATE LIMITED**
**September 2022**

**Ratings**

| Instruments/ Facilities | Amount (NPR. Mn) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 83.48 | IRN BB- | Assigned |
| Short Term Bank Facilities | 190.00 | IRN A4 | Assigned |
| Long Term/Short Term Bank Facilities | 1,286.52 | IRN BB-/ A4 | Assigned |
| **Total** | **1,560.00** | | |

*Details of facilities are in Annexure 1 below*

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 83.48 Mn; IRN A4 (A Four) to the short term bank facilities of NPR 190.00 Mn and IRN BB-/A4 to the long term/short term bank facilities of NPR 1,286.52 Mn.

**Detailed Rationale**

The ratings assigned to the bank facilities of South Asian Infrastructure Private Limited (SAI) derive strength from its experienced promoters and management team in the construction sector with established track record of operations and price variation order in majority of the contracts. These rating strengths, however, are constrained by the below average financial risk profile of the company marked by its leveraged capital structure and weak debt service coverage indicators. Further, the ratings also note SAI's low & concentrated order book position, high counterparty risk, existence of a highly competitive construction industry with policy cap in number of contracts executed at a time, exposure to volatility in interest rate, inherent risks associated with project execution and risk arising due to extended defect liability coverage periods. Going forward, ability of the company to increase its project portfolio with successful execution of current projects in hand and recover contract proceeds in a timely manner while managing healthy revenue growth, improvement in profit margins, formation of joint ventures with credible parties and improvement in net worth base will remain a key rating sensitivities.

**Detailed Description of Key Rating Drivers**

**Key Rating Strengths**

**Experienced promoters and management team in the related fields**

The company has been in operation for around a decade in the Nepalese construction sector. SAI is primarily involved in tunneling and civil works in hydropower projects. The company is promoted by two business houses i.e. Vishal Group and Tater Group. The major operations of the company are overseen by the Chairman, Mr. Bachha Raj Tater, who has over 48 years of experience in construction works. Continuous support from the group in the form of business development, extended credit period from sister companies, equity infusions and loans from the promoter group provides a comfort against the relatively weak financial profile of the business.

**Escalation clause in majority of the contracts**

Escalation clauses are included in majority of the contracts to protect the company against adverse changes in prices of key construction materials such as fuels, steel and cement. This is crucial, especially considering the current global inflationary trend. Nevertheless, the escalation clause does not cover the increased cost of transportation to the construction site. From a rating point of view, the company's ability to pass on rising price burden to customer in a timely manner while maintaining profit margin remains critical.

**Key Rating Weaknesses**

**Below-average financial profile**
SAI's low financial profile is evidenced by stagnated revenue growth with a corresponding sharp decline in EBITDA margin. The total operating income (TOI) of SAI has increased by 2.21% in FY22 compared to FY21. Nevertheless, the EBITDA margin of SAI has drastically fallen from ~11% in FY21 to ~6% in FY22 primarily due to increased transportation costs and inflationary trend observed in raw materials. Furthermore, the tangible net-worth base of the company has been affected by dividend distribution and losses in FY22 which has resulted in a leveraged capital structure marked by deteriorated overall gearing ratio of 3.59x and total gearing ratio (including mobilization advance) of 6.76x. Though the interest coverage ratio remained comfortable at 3.00x in FY22, it was drastically shrunk from 36.03x in FY21 mainly due to squeezed profitability margin, increased borrowings and higher interest rates.

**Low and concentrated order book position with short-term revenue visibility**
SAI's unexecuted order in hand as on mid-July,2022 stood at ~NPR 1,497 Mn which indicates short term revenue visibility especially upon considering the anticipated COD[1] of the project in hand. Furthermore, the order book of SAI is highly concentrated as reflected in ~95% of orders which are attributable alone to the hydropower sector and the remaining towards construction of warehouse project.

**Project execution risk**
SAI's business model has some inherent risks, and the company is vulnerable to financial losses arising from delays in project execution. The project execution risk is further aggravated due to limited projects in hand, considerable exposure in hydropower projects with unfavorable terrain and road ways which is susceptible to natural disasters like floods and landslides. However, the company has been able to establish itself as a construction firm specializing in civil works and tunneling works of hydropower projects which provides comfort to an extent.

**High counter party risk in a highly competitive environment**
SAI's order book is almost entirely made up of privately funded hydropower projects which exposes the company to the risk of delayed payment without any recourse especially considering that these projects are substantially financed by BFIs. Moreover, the construction industry is extremely competitive due to presence of many fragmented and unorganized players and SAI's ability to maintain profit margins and growth in the future remains crucial.

**Defect liability and exposure to interest rate risk**
SAI is susceptible to financial losses arising out of defects identified by the client during the defect liability period as per the terms of the construction contracts and a longer defect liability period increases the defect liability risk. The Interest rates on deposits and borrowing remains a significant factor in the Nepalese economy. In line with NRB's directives, the BFIs typically charge interest rate on loans by adding a premium to the base rate which are revised on a quarterly basis. The interest rates charged by BFIs have been historically volatile over the past 2-3 years and thus borrowing from banks and financial institutions exposes SAI to risk of interest rate volatility.

**Analytical Approach:** Standalone

**Applicable Criteria:**
Corporate Credit Rating Methodology

[1] Commercial Operation Date

**About the Company:**

South Asian Infrastructure Private Limited (SAI) is Class "A" construction company of Nepal which was incorporated on March 16, 2013 with its registered office in Koteshwor, Kathmandu, Nepal. The company is promoted by Vishal Group and Tater Group each holding ~43% share of the company while the remaining is held by others. The company is led by Mr. Baccha Raj Tater who has considerable experience in construction field. Within the short span of time the company has been able to establish itself as a construction company specializing in civil and tunneling works for hydropower projects.

**Financial Indicators (Standalone)**

| For the year ended* As on | FY20 | FY21 | FY22 |
|---|---|---|---|
| | Audited | Audited | Unaudited |
| Total Operating Income (in NPR Mn.) | 986 | 1,011 | 1,033 |
| EBITDA Margin (%) | 16.01 | 11.25 | 5.77 |
| Interest Coverage Ratio (x) | 17.21 | 36.03 | 3.00 |
| Current Ratio (x) | 2.40 | 1.23 | 1.04 |
| Overall Gearing Ratio (x) | 0.31 | 0.76 | 3.59 |

* *Classification as per Infomerics Nepal standards*

**Annexure:1 Detail of Facilities:**

| Name of Instruments/ Facilities | Type of Facilities | Amount (NPR Mn.) | Ratings |
|---|---|---|---|
| Fund Based Bank Facilities- Term Loan (TL) | Long Term | 83.48 | IRN BB- |
| Fund Based Bank Facilities-Working Capital (WCL) | Short Term | 190.00 | IRN A4 |
| Fund Based Bank Facilities- Non Fund based | Long Term/ Short Term | 1,270.00 | IRN BB-/A4 |
| Fund Based Bank Facilities- Non Fund based (Proposed) | Long Term/ Short Term | 16.52 | IRN BB-/A4 |
| **Total Facilities** | | **1,560.00** | |

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**About Infomerics Credit Rating Nepal Limited:**

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