

PRESS RELEASE

VEDALAYA CONSTRUCTION PRIVATE LIMITED

June 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Short Term Bank Facilities	100.00	IRN A4	Assigned
Long Term/Short Term Bank Facilities	1,400.00	IRN BB-/ A4	Assigned
Total	1,500.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 100.00 Mn and IRN BB- (Double B Minus) /A4 (A Four) to the long term/short term bank facilities of NPR 1,400.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Vedalaya Construction Private Limited (VCPL) derive strength from its experienced promoter and management in construction fields, escalation clauses in the major contracts, average order book position and financial profile. These rating strengths, however, are constrained by VCPL's limited track record and existence in a competitive industry. Further, the ratings also note VCPL's exposure to counterparty risk, project execution risks due to high project concentration, interest rate volatility risk and defect liability risks. Going forward, the ability of the company to successfully execute current projects in hand, stabilize its operations, improve profit margins and net worth base while managing revenue growth will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter and established track record of operations

VCPL is led by Mr. Jayaram Aryal, Chairman, who has more than a decade of experience in the field of construction business. Mr. Sudarshan Chapagain, Director, also has over a decade of experience in the field of accounting and financial management. Furthermore, the board is aptly supported by an experienced team across various departments.

Average order book position with short-term revenue visibility

Till mid- May 2023, the unexecuted orders in hand of the company stood at ~NPR 907 Mn. VCPL's order book position remains moderate as of mid-May 2023, with an unexecuted order in hand of ~4 times the operating income in FY22. Furthermore, the order book reflects short-term revenue visibility as the projects are in scheduled to be completed within the next two years.

Escalation clauses in major contracts

The revenue sharing model employed by VCPL has enabled the company to benefit from escalation clauses included in the primary contract, despite its subcontracting role in governmental projects. This is crucial, especially considering the current global inflationary trend. Nevertheless, the coverage provided by the escalation clauses is capped, thus VCPL still retains a portion of the raw material price volatility risk. From a rating point of view, the company's ability to pass on rising price burdens to customers (employers) promptly while maintaining profit margin remains critical.

Key Rating Weaknesses

Limited track record of operation

VCPL was partly in operation from FY21, leading to a limited operational track record of around two years. Although the company has completed a few projects and scaled up its operations to some extent, its ability to further scale up while maintaining its margin remains to be seen.

Project execution risk

The VCPL business model carries inherent risks, as the projects are susceptible to delays in procedural approvals, site clearances, and other operational issues. This exposes the company to the risk of project execution delays, which in turn leads to delays in revenue realization. Furthermore, the company's high concentration in a single project, which represents approximately 57% of unexecuted orders, exacerbates the execution risk. However, the presence of experienced promoters with prior exposure in the construction sector provides some level of comfort.

High counter party risk in a highly competitive industry

The majority of VCPL's revenue is derived from its engagement as a sub-contractor in governmental projects for other construction companies. The company's counterparty risk remains high as the entire outstanding order in hand is attributable to private employers exposing the company to the risk of delayed payment without any recourse. Moreover, the construction industry is extremely competitive due to presence of many fragmented and unorganized players and VCPL's ability to obtain new projects while maintaining profit margins and growth in the future remains crucial.

Interest rate and defect liability risk

The Interest rates on deposits and borrowing remain a significant factor in the Nepalese economy. In line with NRB's directives, the BFIs typically charge an interest rate on loans by adding a premium to the base rates which is 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 VCPL to the risk of interest rate volatility. Further, VCPL 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.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Vedalaya Construction Private Limited (VCPL) is a Class "D" construction company of Nepal which was incorporated on January 1, 2021. The registered office of the company is located at Madhyapur Thimi, Bhaktapur. The company is promoted by Mr. Jayaram Aryal and M/s Stream Investment Company Private Limited.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	9MFY23
	Audited	Audited	Provisional
Total Operating Income (in NPR Mn.)	18	226	274
EBITDA Margin (%)	2.73	9.30	12.29
Interest Coverage Ratio (x)	NM	29.82	8.46
Current Ratio (x)	1.05	1.22	2.13

For the year ended* As on	FY21	FY22	9MFY23
	Audited	Audited	Provisional
Overall Gearing Ratio (x)	-	0.63	0.44

Earnings before Interest Tax Depreciation Amortization (EBITDA)

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	100.00	IRN A4
Non Fund based Bank Facilities- LC/BG ¹	Long Term/ Short Term	1,400.00	IRN BB-/ A4
Total Facilities		1,500.00	

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About Infomerics Credit Rating Nepal Limited:

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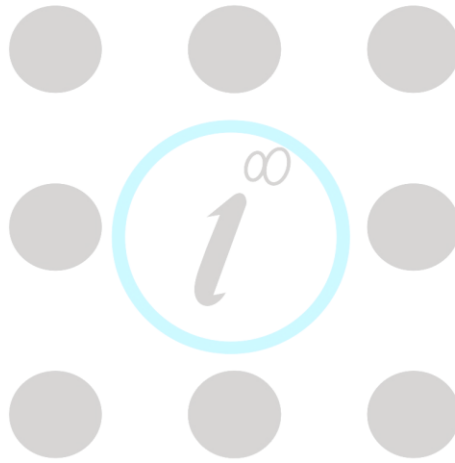
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¹ Letter of Credit (LC), Bank Guarantee (BG)

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