PRESS RELEASE

RASUWA CONSTRUCTION COMPANY PRIVATE LIMITED
June 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	80.00	IRN BBB-	Assigned
Short Term Bank Facilities	350.00	IRN A3	Assigned
Long Term/Short Term Bank Facilities	7,090.00	IRN BBB-/ A3	Assigned
Total	**7,520.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN BBB- (Triple B Minus) to the long term bank facilities of NPR 80.00 Mn, the short term rating of IRN A3 (A Three) to the short term bank facilities of NPR 350.00 Mn and IRN BBB- (Triple B Minus) /A3 (A Three) to the long term/short term bank facilities of NPR 7,090.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Rasuwa Construction Company Private Limited (RCPL) derive strength from its experienced promoters and management in construction fields with established track record of operations along with escalation clauses in the major contracts, moderate counter-party risk, adequate order book position and average financial profile. These rating strengths, however, are constrained by RCPL's existence in a competitive industry with a policy of limited number of contracts that can executed at a time. Further, the ratings also note RCPL's exposure to project execution risks, interest rate volatility risk and defect liability risks. Going forward, the ability of the company to stabilize the scale of operations and successfully execute current projects in hand while improving its overall financial profile will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter and established track record of operations

RCPL is led by Mr. Rajendra Raj Acharya, Chairman, who has been involved with the company since its inception in 1997 and has more than two decade of experience in the field of construction business. Mr. Mohan Acharya, Director, also brings with him more than two decades of experience in the construction contracting business. Furthermore, the board is aptly supported by an experienced team across various departments.

Adequate order book position with mid-term revenue visibility

As of the end of May 2023, the unexecuted orders in hand for the company stood at ~NPR 5,573 Mn (including RCPL's share in JVs). RCPL's order book position remains adequate as of May end 2023, with an unexecuted order in hand of ~2 times the operating income in FY22. Furthermore, the order book reflects mid-term revenue visibility as the projects are scheduled to be completed within the next three years.

Moderate counter party risk with escalation clauses in major contracts

RCPL primarily operates as contractor for governmental projects related to roads, bridges, buildings, hydropower facilities, and irrigation works. Counter party risk remains moderate given that the projects are from government departments and agencies, which have been making timely payments to the company in the past. Furthermore, price adjustment clauses included in the majority of the contacts protects RCPL against adverse changes in the price of construction materials. This is crucial, especially considering the current global inflationary trend. Nevertheless, the coverage provided by the escalation clauses is capped, thus RCPL 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.

Average financial profile

The financial profile of RCPL is characterized by comfortable debt coverage indicators and moderately leveraged capital structure. The overall gearing ratios of RCPL remains satisfactory at 1.66x, primarily due to a lower requirement for fund-based limits rather than non-fund based limits, given its tender based nature of operations. However, the overall gearing ratio of RCPL has slightly deteriorated from ~1.52x in FY21 and FY20. RCPL's interest coverage ratio, as of as of mid-July, 2022, remains comfortable at 9.39x, although it has deteriorated from 18.29x in FY21 on account of higher interest charged on borrowings in recent years. RCPL has reported a compounded annual growth rate (CAGR) of ~11% in operating revenue over the last five years, ending in FY22. Despite this growth, the revenue profile of RCPL has been volatile in recent years experiencing a dip of ~19% in FY22 to NPR 3,462 Mn from NPR 4,259 Mn in FY21. This decline was attributed to some administrative and technical issues resulting in delayed recognition of revenues. Nevertheless, the company has been able to stabilize its EBITDA margins at ~8% over the past five years, except for FY20 when it achieved a higher margin of ~14%. Going forward the ability of the company to stabilize its scale of operations while improving its overall financial profile remains crucial.

Key Rating Weaknesses

Project execution risk

RCPL's business model has some inherent risk and the projects are susceptible to delays in procedural approvals, site clearances and other issues exposing the company to the risk of delay in project execution leading to delays in realization of revenues. Additionally, RCPL's significant exposure to projects related to construction of bridges, accounting for ~57% of its unexecuted orders, which are prone to delays due to design and other technical issues further aggravates the project execution risk. Furthermore, given the policy of limiting outstanding government contracts at a time, the timely execution of the order in hand is critical.

Existence in a competitive industry with policy cap in number of contracts

The company receives the majority of its work from governmental agencies which are subject to a competitive bidding process. Further, the business also remains dependent on stability in government policies and fiscal policies. Moreover, recent regulation of Government limits contractors to participate in a maximum of five contracts at a time. Thus, RCPL's ability to obtain new projects while maintaining profit margins remains crucial. Nevertheless, the recent Government initiative of prohibiting foreign companies to participate in a contract up to NPR 5,000[1] Mn (previously NPR 3,000 Mn) remains positive to the domestic contractors. Further, the foreign companies must form a joint venture with a Nepalese company in order to take the contract up to NPR 10,000 Mn, this is also expected to enhance technical capacity of Nepalese contractors going forward.

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 BFI[2]s typically charge an interest rate on loans by adding a premium to the base rates which is revised on a periodic 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 RCPL to the risk of interest

[1] 12th amendment to public procurement regulation as published in Nepal gazette on July 04, 2022

[2] Bank and Financial Institutions

rate volatility. Further, RCPL 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: Consolidated

Applicable Criteria:
Corporate Credit Rating Methodology

About the Company:
Rasuwa Construction Company Private Limited (RCPL), classified as a Class "A" contractor, was incorporated on April 28,1997. The company's registered office is located in Dhapasi, Kathmandu. RCPL is actively engaged in the construction of bridges, buildings, roads, hydropower projects, and other infrastructure developments across Nepal. In addition to undertaking projects independently, RCPL also forms joint ventures (JVs) to fulfill the prerequisites for participating in various construction projects.

Financial Indicators (Consolidated)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	3,421	4,259	3,462
EBITDA Margin (%)	13.89	7.70	8.03
Interest Coverage Ratio (x)	23.67	18.29	9.39
Current Ratio (x)	1.49	1.46	1.38
Overall Gearing Ratio (x)	1.52	1.52	1.66

EBITDA =Earnings before Interest Tax Depreciation Amortization
**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-Term Loan	Long Term	80.00	IRN BBB-
Fund Based Bank Facilities-Working Capital Loan (WCL)	Short Term	350.00	IRN A3
Non Fund based Bank Facilities- LC/BG	Long Term/ Short Term	7,090.00	IRN BBB-/A3
Total Facilities		**7,520.00**	

LC= Letter of Credit; BG= Bank Guarantee

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About Infomerics Credit Rating Nepal Limited:

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