

PRESS RELEASE

C.M. CONSTRUCTION PRIVATE LIMITED (Revalidated)

November 2023

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings
Long Term Bank Facilities	32.97	IRN B+
Short Term Bank Facilities	21.80	IRN A4
Long Term/Short Term Bank Facilities	1,945.23	IRN B+/ A4
Total	2,000.00	

Details of facilities are in Annexure 1 below

Detailed Rationale

The ratings assigned to the bank facilities of C.M. Construction Private Limited (CMCPL) derive strength from its experienced promoter in construction fields with a long track record of operations along with escalation clauses in the majority of the contracts, moderate counter-party risk and average order book position. These rating strengths, however, are constrained by CMCPL's existence in a competitive industry with a policy cap in number of contracts executed at a time. Further, the ratings also note CMCPL's moderate financial profile, exposure to project execution risks, interest rate volatility risk and defect liability risks. Going forward, the ability of the company to successfully execute current projects in hand while managing revenue growth, maintaining profit margins and improving net worth base will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record of operations with experienced promoters

CMCPL has a long track record of more than two decades and currently operates as a Class "B" construction company of Nepal. The company is led by Mr. Bishnu Bhai Shrestha, Chairman, who has more than two decades of experience in the construction sector. Similarly, the other directors of the company also have relevant experience in management and construction 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 mid-October 2023, the unexecuted orders in hand of the company stood at ~NPR 735 Mn (including CMCPL's share in JVs). CMCPL's order book position remains comfortable as of mid-October 2023, with an unexecuted order in hand of 2.52 times the operating income in FY23. Furthermore, the order book reflects mid-term revenue visibility as all the projects are in scheduled to be completed within the next two years. Nevertheless, there are a few projects that have either reached or are nearing their scheduled due dates. Going forward, CMCPL's ability to obtain necessary extension and complete the projects without incurring significant penalty or adverse actions by the employer remains crucial.

Moderate counter party risk with escalation clauses in major contracts

CMCPL primarily operates as contractor for governmental projects related to roads, buildings and other infrastructure development projects. The counter party risk remains moderate given that the projects are from government departments and agencies. Furthermore, price adjustment clauses included in the majority of the contacts protects the company 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 CMCPL 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 managing profitability remains critical.

Key Rating Weaknesses

Moderate financial profile

CMCPL has experienced a continuous decline in its Total Operating Income (TOI) over the past 3 years. In FY23, the TOI of CMCPL declined to NPR 292 Mn in FY23 from NPR 356 Mn in FY22 and NPR 408 Mn in FY21, due to delays in completion of the projects undertaken by the company. Despite the sustained decline in TOI, CMCPL has been able to marginally improve its EBITDA Margins to ~15% in FY23 from ~13% in FY22 and ~14% in FY21. However, in absolute terms, the EBITDA of CMCPL has declined to NPR 44 Mn in FY23 vis-à-vis NPR 46 Mn in FY22 and NPR 56 Mn in FY21. The interest coverage of CMCPL remained comfortable at 3.28x in FY23 which nevertheless has deteriorated from 3.97x in FY22 and 4.80x in FY21. However, the overall gearing of CMCPL has improved to 3.80x in FY23 from 6.29x in FY22 and 5.73x in FY21 due to injection of equity by the company's shareholders. Nonetheless, the reliance of CMCPL on external financing including mobilization advances remains high. Going forward, the ability of CMCPL to timely execute the current order in hands while improving its overall financial profile remains crucial.

Project execution risk

CMCPL's business model has some inherent risk and the projects are susceptible to delays in procedural approvals, site clearances and other operational issues exposing the company to the risk of delay in project execution leading to delays in realization of revenues. 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 a policy cap on 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, CMCPL'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 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 BFIs 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 CMCPL to the risk of interest rate volatility. Further, CMCPL 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:

C.M. Construction Private Limited (CMCPL) was incorporated in 2003 as a firm before being converted to a private limited company in 2018. CMCPL is classified as a Class “B” contractor with its registered office located at Jorpati, Kathmandu. The company is involved in renovation works of historical monuments along with construction of roads, buildings etc. In addition to working on projects individually, CMCPL also forms joint ventures (JVs) in order to meet the requirements for participating in various construction projects.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	408	356	292
EBITDA Margin (%)	13.81	12.96	14.95
Interest Coverage Ratio (x)	4.80	3.97	3.28
Current Ratio (x)	2.19	3.36	2.97
Overall Gearing Ratio (x)	5.73	6.29	3.80

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.)	Ratings
Fund Based Bank Facilities- Term Loan	Long Term	32.97	IRN B+
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	21.80	IRN A4
Non Fund based Bank Facilities- LC/BG ¹	Long Term/ Short Term	1,441.50	IRN B+/A4
Non Fund based Bank Facilities- LC/BG (Proposed)	Long Term/ Short Term	503.73	IRN B+/A4
Total Facilities		2,000.00	

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



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