

## PRESS RELEASE

### **HIMDUNG & THOKAR CONSTRUCTION PRIVATE LIMITED**

**January 2024**

#### **Ratings**

<b>Instruments/ Facilities</b>	<b>Amount (NPR. Mn)</b>	<b>Ratings</b>	<b>Rating Action</b>
Long Term Bank Facilities	174.00	IRN BB	Assigned
Short Term Bank Facilities	88.00	IRN A4	Assigned
Long Term/Short Term Bank Facilities	2,265.60	IRN BB/ A4	Assigned
<b>Total</b>	<b>2,527.60</b>		

*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) to the long term bank facilities of NPR 174.00 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 88.00 Mn and IRN BB (Double B) /A4 (A Four) to the long term/short term bank facilities of NPR 2,265.60 Mn.

#### **Detailed Rationale**

The ratings assigned to the bank facilities of Himdung & Thokar Construction Private Limited (HTC) derive strength from its experienced promoters and management team in construction fields with its established track record of operations. The ratings also factor in escalation clauses in the major contracts, moderate counterparty risk and average financial profile of the company. These rating strengths, however, are constrained by HTC's concentrated yet moderate order book position and existence in a competitive industry with its exposure towards government regulations. Furthermore, the ratings also note HTC's exposure to project execution risk, volatility in revenue, interest rate volatility risk and defect liability risk. Going forward, the ability of the company to successfully execute projects in hand while managing revenue growth and maintaining profitability margins without deterioration in its financial risk profile will remain a key rating sensitivity.

#### **Detailed Description of Key Rating Drivers**

##### **Key Rating Strengths**

##### **Experienced promoters and established track record of operations**

HTC is promoted by Mr. Bahadur Singh Lama (Tamang), Mr. Shivahari Ghimire and Er. Nirmal Prasad Sitaula with each having experience of three decades. Currently, HTC is led by Mr. Swornim Lama (Managing Director) who also has three years of experience in the field of construction. Mr. Lama is backed by well experienced top management personnel having more than two decades of experience in construction contracting business. HTC has completed over 110 projects since its inception and has been involved in national pride projects such as restoration of Mayadevi temple, Lumbini-Buddhist Circuit, Kathmandu-Bhaktapur road expansion projects etc. HTC has also been acknowledged with Gold Award, 2018 by FCAN<sup>1</sup> for the work performed in the field of National Construction Business.

<sup>1</sup>: Federation of Contractors' Association of Nepal

## **Moderate counter party risk with escalation clauses in major contracts**

HTC primarily operates as contractor for governmental projects related to highways, bridges, and buildings. Counter party risk remains moderate given 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 contracts protect HTC 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 HTC still retains a portion of the raw material price volatility risk.

## **Average financial risk profile**

Total Operation Income (TOI) of the company has remained volatile in the past three years due to inability to execute the orders in timely manner due to COVID and slowdown in economic development, however, TOI of HTC is in increasing trend with ~NPR 406 Mn in FY23(UA) from ~NPR 369 Mn in FY22. Furthermore, HTC has been able to maintain stable EBITDA margin of ~18% for past three years. However, PAT Margin of the company has remained volatile in the past three financial years (FY), mainly due to increase in interest expense. It has negatively impacted Gross Cash Accruals (GCA) due to which Total debt/GCA was high at 11.28x in FY23(UA) vis-à-vis 10.26x in FY22. The overall gearing of HTC was moderate at 1.59x in FY23(UA) vis-à-vis 1.62x in FY22. In addition to this, the interest coverage ratio was moderate at 1.55x in FY23(UA), which however deteriorated slightly from 1.71x in FY22, due to increase in interest expense. Going forward the ability of HTC to scale up its operations while maintaining its EBIDTA margin as well as timely completion of orders in hand will remain crucial.

## **Key Rating Weaknesses**

### **Concentrated yet moderate order book position**

As on Mid-January 2024, the unexecuted orders in hand of the company stood at ~NPR 2,483 Mn (including HTC's share in JVs). HTC's order book position remains moderate as of Mid-January 2024, with an unexecuted order in hand of ~6 times the operating income in FY23(UA) reflecting mid-term revenue visibility for next two-three years. However, the order book position remains concentrated towards highway expansion and upgradation projects which accounts for ~74% of the outstanding order book position. Therefore, given the policy of limiting outstanding government contracts at a time, the timely execution of the order in hand is critical.

### **Project execution risk**

HTC'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. Additionally, HTC's significant exposure to unexecuted orders of highways and bridges, which are prone to delays due to technical issues such as site clearance poses a significant risk to project execution.

### **Existence in a competitive industry with exposure to government regulation**

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 as well as government capital expenditure. Moreover, recent regulation of Government limits contractors to participate in a maximum of five contracts at a time. Nevertheless, the recent Government Tanka Prasad Marg, Baneshwor Height, Kathmandu, Nepal Contact No. +977-1-4583304, 4585906 Email: [info@infomericsnepal.com](mailto:info@infomericsnepal.com), Website: [www.infomericsnepal.com](http://www.infomericsnepal.com)

initiative of prohibiting foreign companies to participate in a contract up to NPR 5,000 Mn remains positive to the domestic contractors. Thus, HTC's ability to obtain new projects while maintaining profit margins 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 BFI<sup>2</sup>s 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 HTC to the risk of interest rate volatility. Further, HTC 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 which is 1 year for majority of the projects and 5 years for design and build projects.

**Analytical Approach:** Standalone

## Applicable Criteria:

[Corporate Credit Rating Methodology](#)

## About the Company:

Himdung & Thokar Construction Pvt Limited (HTC) was registered in Department of Cottage and Small industries on August 29, 1987 as "D" class construction company and upgraded to "A" class construction company on October 31, 2016. The registered office of the company is located at Thamel, Kathmandu. The company is involved in construction of highways, bridges/irrigation and railroads. In addition to working on projects individually, HTC 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	FY20	FY21	FY22	FY23
	Audited	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	375	520	369	406
EBITDA Margin (%)	19.09	17.05	17.78	17.59
Interest Coverage Ratio (x)	2.27	1.97	1.71	1.55
Current Ratio (x)	1.89	0.65	0.94	0.87
Total Debt/GCA (years)	4.17	7.85	10.26	11.28
DSCR (x)	2.16	1.88	1.69	1.53
Overall Gearing Ratio (x)	1.47	2.68	1.62	1.59

\* Classification as per Infomerics Nepal standards

<sup>2</sup>: Bank and Financial Institutions

## Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn.)	Ratings
Long Term Bank Facilities- Fund Based	Long Term	174.00	IRN BB
Short Term Bank Facilities- Fund Based	Short Term	74.00	IRN A4
Short Term Bank Facilities- Fund Based (Proposed)	Short Term	14.00	IRN A4
Long Term/Short Term Non Fund Based	Long Term/ Short Term	2,245.60	IRN BB/A4
Long Term/Short Term Non Fund Based (Proposed)	Long Term/ Short Term	20.00	IRN BB/A4
<b>Total Facilities</b>		<b>2,527.60</b>	

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## About Infomerics Credit Rating Nepal Limited:

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