

PRESS RELEASE

SURYA CHANDRA CONSTRUCTION PRIVATE LIMITED

February 2024

Ratings

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	209.84	IRN B-	Assigned
Short Term Bank Facilities	63.50	IRN A4	Assigned
Long Term/Short Term Bank Facilities	392.00	IRN B-/ A4	Assigned
Total	665.35		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B- (Single B Minus) to the long term bank facilities of NPR 209.84 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 63.50 Mn and IRN B- (Single B Minus) /A4 (A Four) to the long term/short term bank facilities of NPR 392.00 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Surya Chandra Construction Private Limited (SCCP) derives 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 moderate order book with mid-term revenue visibility. These rating strengths, however, are constrained by SCCP's modest financial profile along with its elongated operating cycle. Furthermore, the ratings also note SCCP's existence in a competitive industry with its exposure towards government regulations, 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 increasing 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

SCCP is led by Mr. Janardhan Dhakal, a sole promoter of the company who has more than two decades of experience in the construction business. Similarly, Mr. Dhakal is backed by well experienced top management personnel across various having more than ten years of experience in construction contracting business. The company has completed over 500 projects since its inception including construction of building of individuals as well as Governmental offices such as Police Headquarters (Naxal), Rasuwa District Court, District Administrative Office, Palpa etc.

Moderate counter party risk with escalation clauses in major contracts

SCCP primarily operates as contractor for governmental projects related to construction of buildings and road upgradation. Counter party risk remains moderate given the projects are mostly 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 SCCP 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 SCCP still retains a portion of the raw material price volatility risk.

Moderate order book position with mid-term revenue visibility

As on Mid-February 2024, SCCP has five orders in hand. The order book position of the company remains moderate with unexecuted orders in hand of the company standing at ~NPR 323.85 Mn (including SCCP's share in JVs) which is ~4x the operating income in FY23 reflecting mid-term revenue visibility for next one to two years. From rating point of view, securing new projects and timely execution of order in hand remains critical.

Key Rating Weaknesses

Modest financial profile

SCCP's total operating income (TOI) has been volatile for last five years and is in decreasing trend since last three years which stands at NPR 86.60 Mn in FY23 vis-à-vis NPR 178.20 Mn in FY22 and NPR 201.54 Mn in FY21. This fluctuation in TOI has also seen volatility in EBITDA margin, which fluctuated to ~11% in FY23 which was negative in FY22 and ~18% in FY 21. Additionally, trend of TOI and EBITDA margin has adversely impacted Gross Cash Accruals (GCA) which is negative in FY23 vis-à-vis ~NPR 36 Mn in FY22¹ and ~NPR 13 in FY21. However, SCCP has billed ~NPR 58.51 Mn in 7MFY24, and further ~NPR 50 Mn is in the pipeline, expected to be approved in Mid- March, which is ~25% growth of operating income in FY23. Thus, going forward the ability of the company to increase its scale of operations and timely completion of orders in hand while improving its liquidity position and profitability margins, remains a key monitoring factor.

Elongated operating cycle

SCCP is involved in intensive working capital business which has elongated its operating cycle. Since SCCP mostly participates in construction of buildings, the raw materials like cement, steels, aggregates etc. are required in the site at all times. Hence, the company buys the raw material in bulk at year-end for discount as well as to mitigate any further price rise in the future. Therefore, inventory holding day stands at ~485 days in FY23. This has also been reflected with 100% utilization of working capital facilities from bank and financial institutions. However, the promoter has been injecting cash for deficit amount for working capital requirements when and where necessary for smooth operation of the business.

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 initiative of prohibiting foreign companies to participate in a contract up to NPR 5,000 Mn remains positive to the domestic contractors. Thus, SCCP'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 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 SCCP to the risk of interest rate volatility. Further, SCCP is susceptible to financial losses arising out of defects identified by the client

¹ GCA in FY22 saw a positive hike due to profit on sale of land

during the defect liability period as per the terms of the construction contracts which is mostly 1 year for majority of the projects.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Surya Chandra Construction Company Private Limited (SCCP) established on February 23, 1997, has been led by its founder and sole promoter, Mr. Janardan Dhakal. It has been registered as “A Class” in September 2009. SCCP has an established track record of operations and has successfully completed over 500 projects related to roads and buildings construction among others since its inception. In addition to working on projects individually, SCCP 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	Audited
Total Operating Income (in NPR Mn.)	48.64	201.54	178.20	86.60
EBITDA Margin (%)	55.30	18.46	Neg	11.14
Interest Coverage Ratio (x)	1.51	1.59	Neg	0.59
Current Ratio (x)	0.50	0.45	0.48	1.01
TOL/TNW	4.49	8.37	5.34	5.43
Total Debt/GCA (years)	19.87	27.31	7.76	Neg
DSCR (x)	1.50	1.55	2.44	0.59
Overall Gearing Ratio (x)	3.19	6.34	4.33	4.79

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
Long Term Bank Facilities- Fund Based	Long Term	209.84	IRN B-
Short Term Bank Facilities- Fund Based	Short Term	63.50	IRN A4
Long Term/Short Term Non-Fund Based	Long Term/ Short Term	392.00	IRN B-/A4
Total Facilities		665.35	

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About Infomerics Credit Rating Nepal Limited:

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