

## PRESS RELEASE

### **LUMBINI BUILDERS PRIVATE LIMITED**

April 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	3.99	IRN BB-	Assigned
Short Term Bank Facilities	99.50	IRN A4	Assigned
Long/Short Term Bank Facilities	1,556.51	IRN BB-/A4	Assigned
<b>TOTAL</b>	<b>1,660.00</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 Minus) to the long term bank facilities of NPR 3.99 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 99.50 Mn and IRN BB-/ A4 (Double B Minus/ A Four) to the long term/short term bank facilities of NPR 1,556.51 Mn.

#### Detailed Rationale

The ratings assigned to the bank facilities of Lumbini Builders Private Limited (LBPL) derive strength from its experienced promoters and its established track record of operations. The ratings also factor in company's moderate capital structure and debt service coverage indicators, followed by moderate order book position, albeit concentrated. These rating strengths, however, are constrained by LBPL's fluctuating financial performance and high operating cycle. Furthermore, the ratings also note LBPL's exposure to project execution risk, existence of the company in competitive construction industry and exposure to fluctuations in interest rate and changes in government regulations. Going forward, the ability of the company to improve its scale of operations and profitability margins and the ability of the company to timely complete the projects in hand and realize the proceeds in timely manner will remain key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

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

LBPL is a class A construction company of Nepal with over four decades of operational history. LBPL is managed under the guidance of three member Board of Directors, led by Mr. Bishnu Prasad Sharma, Managing Director having more than four decades of experience in the field of construction business. Similarly, Mr. Lank Bahadur K.C., Executive Director, also possesses more than four decades of experience in the construction sector. Additionally, the board is supported by experienced personnel across various fields.

#### Moderate capital structure and debt service coverage indicators

The overall gearing ratio of LBPL stood moderate at 0.70x at the end of FY23, improved from 0.81x at the end of FY22 with improvement in tangible net worth of the company with accretion of profits to the reserves of the company. The gearing ratio including mobilization advance stood at 1.29x at the end of FY23 compared to 1.20x at the end of FY22. The interest coverage ratio of LBPL is moderate at 1.93x in FY23, slightly deteriorated from 2.20x in FY22 mainly due to increase in interest expenses during FY23. Similarly, total debt to GCA ratio improved to 9.24x in FY23 from 12.65x in FY22 mainly due to increase in net profitability of the company. DSCR of LBPL is comfortable at 2.27x in FY23, increased from 2.15x in FY22. Furthermore, TOL/TNW ratio is moderate at 2.28x at the end of FY23 and 2.04x at the end of FY22 respectively.

## **Moderate albeit concentrated order book position with mid-term revenue visibility**

As on March 31 2024, LBPL has 7 projects in hand with unexecuted order size standing at NPR 1,408 Mn (LBPL's share in JVs). LBPL's order book position remains moderate, with an unexecuted order in hand of 3.57x the operating income in FY23 reflecting mid-term revenue visibility for next two-three years. The order book position remains concentrated towards bridge construction projects which accounts for ~60% of the order book. Furthermore, the order book position is geographically concentrated in Lumbini Province with ~54%, and also one of the projects account for ~29% of the outstanding order book position giving rise to geographical and single party concentration risk.

## **Key Rating Weaknesses**

### **Fluctuating financial performance**

LBPL's operating revenue exhibited a fluctuating trajectory over the past five fiscal years (FY19-FY23) with a negative CAGR of ~4% mainly due to the impact of covid19 pandemic and lower government capital expenditures. The total operating income increased by ~63% year-on-year in FY23 to NPR 395 Mn with completion of projects in hand. Also, the EBITDA margin had been volatile ranging from 6% to 13% during FY19-FY23. With increase in total operating income in FY23, profitability and gross cash accruals improved although remained lower than pre-covid levels. Therefore, the company's ability to consistently scale its revenues while ensuring adequate margins will remain crucial.

### **Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature. The gross current assets days of the company stood relatively high at 188 days in FY23 vis-à-vis 342 days in FY22. The average collection period of the company stood relatively high at 124 days in FY23, although improved from 268 days in FY22. Also, the company held inventory of more than 2 months in FY22 and FY23 as it has to maintain adequate inventory at the project sites. The average collection period was high as payments are received after the completion of work certification process. The elongated operating cycle resulted in a stretched liquidity position of the company, increasing reliance on bank financing to fulfill its working capital requirements, consequently leading to increased debt levels. Accordingly, LBPL has been fully utilizing its working capital loans against its sanctioned limits.

### **Project execution risk**

LBPL'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. Nevertheless, with the good reputation of the company coupled with a qualified and experienced management team, the company has been able to execute the projects without incurring significant delays and penalties. 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 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, LBPL's ability to obtain new projects while maintaining profit margins remains crucial.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

## About the Company:

Lumbini Builders Private Limited (LBPL) was incorporated in 1984 and is "A" class construction company since October 1998. The company has an established track record of operations and has successfully completed over 70 projects in last ten years related to roads, bridges, irrigation, hydropower, railroads and building constructions among others.

## Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23
	Audited	Audited	Audited	Audited
Total Operating Income (in NPR Mn)	286	458	246	395
EBITDA Margin (%)	10.71	13.44	8.50	6.63
Interest Coverage Ratio (x)	2.28	4.87	2.20	1.93
Current Ratio (x)	1.62	1.51	1.45	1.61
Total Debt/GCA (years)	11.60	4.49	12.65	9.24
DSCR (x)	2.22	4.13	2.15	2.27
Overall Gearing Ratio (x)	0.68	0.73	0.81	0.70

*Earnings before Interest Tax Depreciation Amortization (EBITDA)*

*Debt Service Coverage Ratio (DSCR)*

*\*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 Loan	Long Term	3.99	IRN BB-
Short Term Bank Facilities- Fund Based Loan	Short Term	87.00	IRN A4
Short Term Bank Facilities- Fund Based Loan (Proposed)	Short Term	12.50	IRN A4
Long Term/Short Term Facilities- Non-Fund Based Loan	Long Term/ Short Term	1,265.30	IRN BB-/A4
Long/Short Term Loan Facilities- Non-Fund Based Loan (Proposed)	Long Term/ Short Term	291.21	IRN BB-/A4
<b>Total Facilities</b>		<b>1,660.00</b>	

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# Infomerics Credit Rating Nepal Limited

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