

PRESS RELEASE

ROJAN NIRMAN SEWA PRIVATE LIMITED

April 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	12.64	IRN BB-	Reaffirmed
Short Term Bank Facilities	332.06	IRN A4	Reaffirmed
Long Term/Short Term Bank Facilities	655.30	IRN BB-/ A4	Reaffirmed
TOTAL	1,000.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed long term rating of IRN BB- (Double B Minus) assigned to the long term facilities of NPR 12.64 Mn, short term rating of IRN A4 (A Four) assigned to the short term bank facilities of NPR 332.06 Mn and IRN BB- (Double B Minus) /A4 (A Four) assigned to the long term/short term bank facilities of NPR 655.30 Mn.

Detailed Rationale

The reaffirmation of bank facilities ratings assigned to Rojan Nirman Sewa Private Limited (RNS) continues to derive strength from its experienced promoters and management team in the field construction with established track records of operations along with escalation clauses in the majority of the contracts, moderate counter-party risk and improving financial performance in FY23 and moderate capital structure and debt service coverage indicators.

These rating strengths, however, are constrained by RNS's modest and concentrated order book position and existence in a competitive civil construction space. Furthermore, the ratings also factor the RNS's susceptibility to interest rate volatility, regulatory risk, exposure to project execution risks and relatively small scale of operations. Going forward, the ability of the company to increase its order book position and diversify geographically, widen the scope of work, successfully execute current projects in hand and timely realization of the contract proceeds while maintaining profitability margins and net worth base will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team with long track record of operations

RNS is led by Mr. Ramir Naharki, Managing Director, who has been leading the company since its inception in 2005 and has more than two decades of experience in the field of the construction business. Similarly, other directors have relevant experience in the construction contract business. Furthermore, the board is supported by an experienced management team member.

Moderate counter party risk with escalation clauses in the majority of contracts

RNS's revenue is fully generated via contracts from government departments for work related to roads, bridges and river training. Counter party risk remains moderate given the projects are from government departments, which have been making timely payment to the company in the past. Furthermore, price adjustment clauses included in majority of the contracts protects RNS against adverse changes in price of construction materials. The company's ability to pass on the escalated cost burdens to customers in a timely manner while maintaining profit margin remains critical.

Moderate Financial Risk Profile

Total Operating Income (TOI) of the company has increased by ~46% year-on-year to NPR 306 Mn in FY23 with completion of projects in hand that were in final stages of completion. EBITDA margin of RNS stood steady at ~9% in FY22-FY23. The overall gearing ratio of RNS stood moderate at 0.83x at the end of FY23, increased from 0.66x at the end of FY22 due to increase in working capital loans to support the increased operations. The interest coverage ratio of RNS stood adequate at 5.35x in FY23, albeit declined from 9.28x in FY22 mainly due to increase in interest expenses with increase in bank borrowings. The total debt to GCA stood moderate at 2.06x in FY23, deteriorated from 1.43x in FY22 with increase in bank loans.

However, the scale of RNS remains relatively smaller compared to other similar peers and going forward the ability of RNS to scale up its operations while improving its margins will remain crucial.

Key Rating Weaknesses

Modest and concentrated order book position

As of mid-April 2024, the unexecuted orders in hand of RNS stood at NPR 173 Mn which is less than the operating income of FY23. Also, the order book remains concentrated towards river training works representing ~61% of the unexecuted orders. Furthermore, the entire project portfolio of RNS is concentrated in Bagmati Pradesh (Province 3) of the country, giving rise to geographical concentration risk. Hence any significant changes in the existing dynamics, could affect RNS's risk profile going forward. The ability of the company to increase its order book will remain crucial.

Existence in a competitive industry and exposure to Government regulations

The construction sector of Nepal is highly competitive with presence of large number of contractors and the contractors are subject to a competitive bidding process to secure the work from governmental agencies. Furthermore, the business also remains dependent on stability in government policies/ fiscal policies and GoN's capital expenditure which has slowed down in the latest years. Thus, RNS's ability to obtain new projects while maintaining profit margins remains crucial. RNS'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 the realization of revenues.

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 interest rates on loans by adding a premium to the base rate 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 RNS to the risk of interest rate volatility. Furthermore, RNS is susceptible to financial losses arising out of defects identified by the client during the defect liability period as per the terms of the contracts.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

Past Rating Rationale:

[Rojan Nirman Sewa Private Limited: Bank Facilities Rating Assigned](#)

About the Company:

Rojan Nirman Sewa Private Limited (RNS) is a Class "A" construction company of Nepal which was initially incorporated as a firm on October 26, 2005, and subsequently was converted into a private limited company in 2016. The registered office of the company is located at Kritipur, Kathmandu, Nepal and the company is promoted by four individual shareholders.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	272	210	306
EBITDA Margin (%)	9.77	9.31	9.16
Interest Coverage Ratio (x)	9.14	9.28	5.35
Total Debt/EBITDA (x)	0.94	1.15	1.51
Current Ratio (x)	0.57	0.98	1.47
Overall Gearing Ratio (x)	0.85	0.66	0.83

*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	12.64	IRN BB-
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	40.00	IRN A4
Fund Based Bank Facilities-WCL (Proposed)	Short Term	292.06	IRN A4
Non Fund based Bank Facilities- Bank Guarantees	Long Term/ Short Term	655.30	IRN BB-/A4
Total Facilities		1,000.00	

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About Infomerics Credit Rating Nepal Limited:

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