

PRESS RELEASE

ANK CONSTRUCTION COMPANY PRIVATE LIMITED

May 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	237.70	IRN BB	Assigned
Short Term Bank Facilities	298.00	IRN A4	Assigned
Long/Short Term Bank Facilities	5,921.70	IRN BB/A4	Assigned
TOTAL	6,457.40		

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 237.70 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 298.00 Mn, and IRN BB/ A4 (Double B/ A Four) to the long term/short term bank facilities of NPR 6,457.40 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of ANK Construction Company Private Limited (ANK) derive strength from its experienced promoters and its established track record of operations. The ratings also factor in company's adequate order book position, followed by moderate capital structure and debt service coverage indicators.

These rating strengths, however, are constrained by ANK's fluctuating financial performance and high operating cycle. Furthermore, the ratings also note ANK'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, timely execute projects in hand and realize the proceeds in timely manner leading to improvement in its financial risk profile will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and established track record of operations

ANK is a class A construction company of Nepal with over four decades of operational history. ANK is managed under the overall guidance of five-member Board of Directors, led by Mr. Shreeram Maharjan, Chairman having more than four decades of experience in the field of construction business. Similarly, Mr. Amrit Kumar Maharjan, Managing Director, also possesses more than two decades of experience in the construction sector. Additionally, the board is supported by experienced personnel across various fields.

Adequate albeit concentrated order book position

As on March 31 2024, ANK had twelve projects in hand with unexecuted order size standing at NPR 4,966 Mn (ANK's share in JVs). ANK's order book position remains adequate, with an unexecuted order in hand of 8.09x the operating income in FY23 reflecting mid-term revenue visibility. The order book position consists mainly of civil works of hydropower projects and bridge construction projects which accounts for ~54% and ~45% respectively, resulting in highly concentrated order book. Furthermore, the projects are geographically concentrated in Bagmati Province with ~59% of the order book. The hydropower project alone accounts for ~54% of the outstanding order book position giving rise to geographical and single party concentration risk.

Moderate capital structure and debt service coverage indicators

The overall gearing ratio of ANK stood moderate at 2.00x at the end of FY23, slightly increased from 1.91x in FY22 mainly due to increase in working capital loans. The gearing ratio including mobilization advance stood at 2.23x at the end of FY23 compared to 2.20x at the end of FY22. The interest coverage ratio of ANK is moderate at 2.37x in FY23 vis-à-vis 2.98x in FY22. Similarly, total debt to GCA ratio increased to 7.89x in FY23 from 5.46x in FY22 mainly due to decline in operating income during FY23. DSCR of ANK is comfortable at 2.38x in FY23 albeit, slightly decreased from 2.79x in FY22. Furthermore, TOL/TNW ratio improved to 2.88x at the end of FY23 from 3.21x at the end of FY22.

Key Rating Weaknesses

Fluctuating financial performance

ANK's total operating income exhibited a fluctuating trajectory over the past five fiscal years (FY19-FY23) with a negative CAGR of ~23% mainly due to the impact of covid19 pandemic and lower government capital expenditures. The total operating income decreased by ~50% year-on-year in FY23 to NPR 614 Mn FY23 due to completion of small volume of contracts in the year, whilst nascent stages of new contracts. Also, the EBITDA margin had been volatile ranging from 13% to 26% during FY19-FY23. With decrease in total operating income in FY23, net profitability and gross cash accruals correspondingly declined. The company's ability to consistently improve and scale its revenues will remain crucial.

Elongated operating cycle with increasing trend in inventory period

The operations of the company are working capital intensive in nature. The gross current assets days of the company stood high at 348 days in FY23 compared to 125 days in FY22 mainly due to rise in average inventory holding. ANK experiences high inventory holding period of ~170-190 days in past four FYs (FY19-FY22). Additionally, in FY23, the inventory holding period stood at 494 days mainly attributable to increased WIP. The average collection period of the company is moderate at 27 days in FY23 decreasing from 31 days in FY22. However, 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. The company's ability to timely turnaround projects under work-in-progress will remain 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, BFIs periodically revise the interest rate on loans. The interest rates charged by BFIs have been historically volatile over the past 2-3 years which exposes ANK to the risk of interest rate volatility. Furthermore, ANK is susceptible to possible financial losses arising from defects during the defect liability period as per the terms of the construction contracts which is 1 year for majority projects and 5 years for design and build projects.

Existence in a competitive industry with exposure to government regulation

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, ANK's ability to obtain new projects while maintaining profit margins remains crucial. ANK'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.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

ANK Construction Company Private Limited (ANK) was incorporated in 1984 and is "A" class construction company since August 1992. The company has an established track record of operations and has successfully completed over 40 projects in last fifteen years related to roads, bridges, building, hydropower, and irrigation among others.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23	8MFY24
	Audited	Audited	Audited	Audited	Provisional
Total Operating Income (NPR Mn)	951	1,213	1,245	614	319
EBITDA Margin (%)	20.33	18.48	17.32	25.83	36.96
Interest Coverage Ratio (x)	3.55	3.47	2.98	2.37	2.79
Current Ratio (x)	0.98	1.07	1.14	1.12	1.34
Total Debt/GCA (years)	6.23	5.47	5.46	7.89	6.82
DSCR (x)	1.73	1.56	2.79	2.38	2.74
Overall Gearing Ratio (x)	3.69	2.36	1.91	2.00	2.08

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	237.70	IRN BB
Short Term Bank Facilities- Fund Based Loan	Short Term	298.00	IRN A4
Long Term/Short Term Facilities- Non-Fund Based Loan	Long Term/ Short Term	5,921.70	IRN BB/A4
Total Facilities		6,457.40	

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About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

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