

## PRESS RELEASE

### K.S. CONSTRUCTION PRIVATE LIMITED

May 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan	973.77	IRN BB	Assigned
Short Term Bank Facilities- Fund Based Loan	1,083.33	IRN A4	Assigned
Long Term/Short Term Facilities- Non-Fund based Loan	8,550.00	IRN BB/A4	Assigned
<b>Total</b>	<b>10,607.10</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 973.77 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 1,083.33 Mn and IRN BB (Double B) /A4 (A Four) to the long term/short term bank facilities of NPR 8,550.00 Mn.

#### Detailed Rationale

The ratings assigned to bank facilities of K.S. Construction Private Limited (KSPL) derive strength from its established operational track record (since 1992) and its experienced promoters. The ratings also take note of KSPL's improving revenue profile with steady EBITDA margins. Also, the ratings take note of moderate counter party risk with escalation clauses in major contract and moderate order book position, albeit geographically concentrated.

These rating strengths, however, are constrained by KSPL's leveraged capital structure, project execution risk, existence in a competitive industry with a policy cap on number of contracts, interest rate volatility risk and defect liability risk. Also, the operations of the company are working capital intensive in nature marked by higher collection period. Going forward, KSPL's ability to improve its scale of operations while maintaining profitability margins and improving its capital structure with rationalization of debt and the ability of the company to timely complete the projects in hand and realize the proceed 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

KSPL is led by Mr. Bheem Bahadur Pal, Managing Director, who has more than two decades of experience in the field of construction. Similarly, Mr. Khadak Singh Pal, Chairman, also possesses more than three decades of experience in the field of construction. KSPL holds "A" class certificate in construction business and has long track record of operation since 1992. The board is supported by experienced personnel across various functions.

##### Improving revenue profile with healthy operating margin

KSPL total income shows CAGR of 15.48% during past 5 FYs (FY19 to FY23). The total operating income improved by 10.64% in FY23 to NPR 1,231 Mn with execution of projects in hand. EBITDA margin of the company stood steady at around 18% during past 3 FYs (FY21-FY23). However, PAT margin reflected a downward trajectory during past 3 FYs (FY21-FY23) owing to increasing interest expenses during that period.

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

As on March 31, 2024, the unexecuted orders in hand of the company stood at NPR 3,646 Mn (KSPL's share in JVs). KSPL's order book position remains moderate as of March 31, 2024, with an unexecuted order in hand of 2.96x the operating income in FY23. The order book position reflects mid-term revenue visibility as the projects are expected to be completed within next one to three years. Majority of the unexecuted order book is concentrated in Sudurpaschim Province i.e., ~64% of the outstanding order

book position followed by Karnali Province which accounts for ~20% of order in hand giving rise to geographical concentration risk.

## Key Rating Weaknesses

### Leveraged capital structure

The capital structure of KSPL stood leveraged with the overall gearing ratio of 3.04x at the end of FY23, deteriorated from 2.71x at the end of FY22 mainly due to increase in working capital loans. The gearing ratio including mobilization advance stands at 3.91x in FY23 compared to 3.46x in FY22. The interest coverage ratio of KSPL is moderate at 1.86x in FY23, slightly deteriorated from 2.20x in FY22 mainly due to increase in interest expenses of the company. Similarly, total debt to GCA ratio deteriorated from 9.24x in FY22 to 11.43x in FY23 with increase in bank borrowings. DSCR of KSPL stood moderate at 1.75x in FY23, which however decreased from 2.32x in FY22. Also, TOL/TNW ratio deteriorated to 6.45x at the end of FY23 from 5.62x at the end of FY22.

### Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by elongated inventory holding at the end of FY23. Average inventory holding of KSPL stood at 262 days in FY23 vis-à-vis 245 days in FY22 which majorly attributable to high WIP. The average collection period of the company stood moderate at 30 days in FY23 (FY22: 9 days). Consequently, the operating cycle of the company stood high at 190 days in FY23 (FY22: 188 days). 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.

### 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, KSPL's ability to obtain new projects while maintaining profit margins remains crucial. KSPL'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 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 KSPL to the risk of interest rate volatility. Further, KSPL 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 to 5 years for its projects.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

**About the Company:**

K.S. Construction Private Limited (KSPL) was established as D Class Construction Firm in 1992. Later it was upgraded to A Class Construction Company on October 26, 2008. KSPL is promoted by two individual promoter directors namely Mr. Khadak Singh Pal and Mr. Bheem Bahadur Pal.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	1,151	1,113	1,231
EBITDA Margin (%)	18.36	18.45	18.86
Interest Coverage Ratio (x)	2.98	2.26	1.86
Current Ratio (x)	1.10	1.17	1.15
Overall Gearing Ratio (x)	2.51	2.71	3.04
Total Debt/GCA (Years)	7.99	9.24	11.43
DSCR (x)	2.83	2.32	1.75

\* Classification as per Infomerics Nepal Standards

## Annexure 1: Details of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities- Fund Based	Long-Term	614.89	IRN BB
Long Term Bank Facilities- Fund Based (Proposed)	Long-Term	358.88	IRN BB
Short Term Bank Facilities- Fund Based	Short-Term	578.66	IRN A4
Short Term Bank Facilities- Fund Based (Proposed)	Short-Term	504.67	IRN A4
Long Term/ Short Term – Non Fund Based	Long- Term/ Short-Term	8,350.00	IRN BB/A4
Long Term Short Term Bank Facilities (Non-Funded)- Proposed	Long- Term/ Short-Term	200.00	IRN BB/A4
<b>Total</b>		<b>10,607.10</b>	

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## About Infomerics Credit Rating Nepal Limited:

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