

PRESS RELEASE

MAHALAXMI CONSTRUCTION CONCERN PRIVATE LIMITED

May 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	0.70	IRN B+	Assigned
Short Term Bank Facilities	19.30	IRN A4	Assigned
Long Term/Short Term Bank Facilities	1,305.00	IRN B+ / A4	Assigned
TOTAL	1,325.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned long term rating of IRN B+ (Single B Plus) to the long term facilities of NPR 0.70 Mn, short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 19.30 Mn and IRN B+ (Single B Plus) /A4 (A Four) to the long term/short term bank facilities of NPR 1,305.00 Mn.

Detailed Rationale

The ratings assigned to Mahalaxmi Construction Concern Private Limited (MCCPL) derive strength from its experienced promoters and management team in the construction field with long track records of operation. The ratings also factor improving capital structure and debt service coverage indicators and moderate order book position with mid-term revenue visibility.

These rating strengths are however constrained by deteriorating financial performance during five FYs (FY19-FY23), working capital intensive nature of operations and existence in a competitive construction industry. Furthermore, the ratings also note MCCPL's exposure to project execution risk, interest rate volatility risk and defect liability risk. Going forward, the ability of company to successfully execute projects in hand and realize the contract proceeds in timely manner while improving its scale of operations and profitability margins will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and long track record of operations

The company is managed under overall guidance of three-member board of directors namely, Mr. Rajendra Manandhar, Mr. Bijay Raj Manandhar and Mr. Jeevan Manandhar, all of whom possess more than three decades of experience in the field of construction sector. Furthermore, the board is supported by qualified professionals across various functions.

Improving capital structure and debt service coverage indicators

The overall gearing ratio of MCCPL stood at 0.05x at the end of FY23, improved from 0.10x at the end of FY22 with the scheduled repayment of term loans. The interest coverage ratio of MCCPL is adequate at 10.83x in FY23, improved from 6.61x in FY22 due to decrease in interest expenses as a result of decrease in debts. Similarly, total debt to GCA ratio also improved from 1.16x in FY22 to 0.41x in FY23. DSCR of MCCPL is comfortable at 10.82x in FY23, although declined from 12.07x in FY22. Furthermore, TOL/TNW ratio is consistent at 0.52x in FY23 and 0.64x in FY22, improving from 1.03x in FY21.

Moderate albeit concentrated order book position

As of March 31, 2024, the unexecuted orders in hand of the company stood at ~NPR 1,631 Mn (MCCPL's share in JVs). MCCPL's order book position remains adequate with an unexecuted order in

hand of 14.43x the operating income in FY23. However, the order book of MCCPL is concentrated as ~61% of the projects are related to road construction projects, ~22% associated with building projects and remaining ~17% associated with civil construction projects.

Key Rating Weaknesses

Deteriorating financial performance

Owing to COVID pandemic, liquidity stress in the banking system and lower governmental capital expenditure, the company had a fluctuating operating revenue in the past 5 FYs (FY19-FY23) with total operating income CAGR of negative ~14%. The total operating income (TOI) of MCCPL decreased from NPR 136 Mn in FY22 to NPR 113 Mn in FY23 owing to lower execution of work in hand during FY23 amid slowdown in overall economy and governmental capex. EBITDA margin was volatile and ranged between 6% to 18% during those years, however improved to ~11% in FY23 from ~7% in FY22. However, PAT decreased by ~87% in FY23 compared to FY22 owing to decline in total income in FY23. 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 at 218 days in FY23, increased from 183 days in FY22 mainly due to increase in average inventory holding. The inventory holding period of MCCPL increased to 79 days at the end of FY23 compared to 34 days in FY22 which majorly include WIP. The average collection period increased to 75 days in FY23 vis-à-vis 27 days in FY22 owing to subdued debtor realization during FY23. Hence, the operating cycle of MCCPL is increased to 22 days during FY23 which was negative in previous years. Given the nature of business, operations are expected to remain working capital intensive. The company's ability to timely turnaround the projects under work-in-progress 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, MCCPL's ability to obtain new projects while maintaining profit margins remains crucial. MCCPL'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 MCCPL to the risk of interest rate volatility. Furthermore, MCCPL 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](#)

About the Company:

Mahalaxmi Construction Concern Private Limited (MCCPL) is a Class "A" construction company of Nepal which was initially incorporated as a firm on September 21, 1976, and subsequently was converted into a private limited company in 1985. The registered office of the company is located at Balaju, Kathmandu, Nepal and the company is promoted by three individual shareholders.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	291	136	113
EBITDA Margin (%)	6.45	6.53	10.60
Interest Coverage Ratio (x)	10.13	6.61	10.83
Total Debt/EBITDA (x)	0.86	1.76	0.33
Current Ratio (x)	1.24	1.75	1.71
Overall Gearing Ratio (x)	0.19	0.10	0.05

*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	0.70	IRN B+
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	14.00	IRN A4
Fund Based Bank Facilities-WCL (Proposed)	Short Term	5.30	IRN A4
Non Fund based Bank Facilities- Bank Guarantees	Long Term/ Short Term	1,305.00	IRN B+/A4
Total Facilities		1,325.00	

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About Infomerics Credit Rating Nepal Limited:

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