

PRESS RELEASE

GAJINDRA NIRMAN SEWA PRIVATE LIMITED

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	10.68	IRN B+	Assigned
Short Term Bank Facilities	15.00	IRN A4	Assigned
Long Term/Short Term Bank Facilities	574.32	IRN B+ / A4	Assigned
TOTAL	600.00		

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 bank facilities of NPR 10.68 Mn, short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 15.00 Mn and IRN B+ (Single B Plus) /A4 (A Four) to the long term/short term bank facilities of NPR 574.32 Mn.

Detailed Rationale

The ratings assigned to Gajindra Nirman Sewa Private Limited (GNSPL) derive strength from its experienced promoters and management team in the construction field with long track record of operations. The ratings also factor in the moderate capital structure and debt service coverage indicators of the company.

These rating strengths are however constrained by deteriorating financial performance, moderate and concentrated order book position, and existence in a competitive construction industry. Furthermore, the ratings also note GNSPL'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 two-member board of directors namely, Mr. Bhagawat Prakash Malla and Mr. Bishnu Prakash Malla, both of whom possess more than two decades of experience in the field of construction sector. GNSPL holds "A" class certificate in construction business and has long track record of operations since 1993. Furthermore, the board is supported by qualified professionals across various functions.

Moderate capital structure and debt service coverage indicators

The overall gearing ratio of GNSPL remains moderate at 0.51x at the end of FY23, slightly increased from 0.42x in FY22 as a result of increase in hire purchases loan. The interest coverage ratio of GNSPL is adequate at 3.48x in FY23, declined from 4.50x in FY22. Similarly, total debt to Gross Cash Accruals ratio has increased to 2.03x in FY23 from 1.35x in FY22 due to increase in bank borrowings. DSCR of GNSPL is adequate at 3.26x in FY23, albeit declined from 4.02x in FY22. Furthermore, Total Outside Liabilities to Tangible Net Worth ratio decreased to 0.87x at the end of FY23 from 1.20x at the end of FY22.

Key Rating Weaknesses

Deteriorating financial profile

GNSPL has experienced a fluctuating trend in total operating income over past five fiscal years (FY19-FY23) with negative CAGR of ~9% mainly due to the COVID pandemic, liquidity crisis and lower capital expenditure of government. Similarly, the variability in total operating income resulted in fluctuating EBITDA margin ranging from ~9% to ~17% during those FYs. PAT margin stood at ~3% in FY23, albeit slightly declined from ~4% in FY22. Similarly, Gross Cash Accruals also decreased to NPR 10 Mn in FY 2023 from NPR 13 Mn in FY22 on account of lower profitability.

Concentrated order book position

The order book of the company is moderate with the unexecuted orders in hand of NPR 218 Mn (including GNSPL's share in JVs) as on April 28, 2024, which is 2.48x the total operating income of FY23. The distribution of order book indicates a significant skew towards road projects within the company's portfolio, with ~59% of projects allocated to this sector. Also, one building project accounts for ~41% of the outstanding order book position. Having a concentrated order book on one project links the financial and operational performance of the company to the same and any disruptions in project execution or contract payments could impact the company's financial health. Furthermore, the order book reflects mid-term revenue visibility as the projects are scheduled to be completed within next one to two year.

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, GNSPL's ability to obtain new projects while maintaining profit margins remains crucial. GNSPL'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 GNSPL to the risk of interest rate volatility. Furthermore, GNSPL 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:

Gajindra Nirman Sewa Private Limited (GNSPL) is a Class "A" construction company of Nepal which was initially incorporated as a firm on November 10, 1993, and subsequently was converted into a private limited company on October 17, 2001. The registered office of the company is located at Chapakot, Syangja, Nepal and the company is promoted by two individual shareholders.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	148	142	88
EBITDA Margin (%)	13.81	13.40	16.67
Interest Coverage Ratio (x)	4.20	4.50	3.48
Total Debt/EBITDA (x)	1.43	0.91	1.32
Current Ratio (x)	1.34	1.42	1.63
Overall Gearing Ratio (x)	0.83	0.42	0.51

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Ratings
Fund Based Bank Facilities-Term Loan	Long Term	10.68	IRN B+
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	15.00	IRN A4
Non Fund based Bank Facilities- Bank Guarantees	Long Term/ Short Term	510.00	IRN B+/A4
Non Fund based Bank Facilities- Bank Guarantees (Proposed)	Long Term/ Short Term	64.32	IRN B+/A4
Total Facilities		600.00	

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About Infomerics Credit Rating Nepal Limited:

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