

## Press Release

### Sumo Construction and Engineering Private Limited

June 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term Bank Facilities- Fund Based Loan	1,222.34	IRN BB-	Assigned
Short Term Bank Facilities- Fund Based Loan	130.26	IRN A4	Assigned
Long Term/Short Term Facilities- Non-Fund based Loan	647.40	IRN BB-/A4	Assigned
<b>Total</b>	<b>2,000.00</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 Minus) to the long term bank facilities of NPR 1,222.34 Mn, the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 130.26 Mn and IRN BB- (Double B Minus) /A4 (A Four) to the long term/short term bank facilities of NPR 647.40 Mn.

#### Detailed Rationale

The ratings assigned to the bank facilities of Sumo Construction and Engineering Private Limited (SCPL) derive strength from its association with strong promoter group, experienced promoter and management team in construction fields with its established track record of operations. The ratings also factor in escalation clauses in the major raw materials, low counter-party risk and moderate debt service coverage indicators of the company. These rating strengths, however, are partially offset by SCPL's concentrated and modest order book position and deteriorating financial performance in past 2 FYs (FY22-FY23). Furthermore, the ratings also note SCPL's exposure to project execution risk, interest rate volatility risk and defect liability risk. The rating also considers SCPL's projects being highly concentrated towards projects of its own sister concerns. Going forward, the ability of the company to improve its scale of operations, increase its order book position coupled with timely realization while maintaining its profitability margins and improving its debt service coverage indicators will be key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

#### Strong promoter group with established track record of operations

The company is a part of MV Dugar Group, owned by Mr. Vivek Dugar who has wide experience of over 3 decades in various sectors. MV Dugar Group is diversified towards various sectors mainly hydropower, automobiles, banking and insurance sector. Mr. Dugar is supported by experienced management team. SCPL has completed 3 hydropower projects namely Numbur Himalaya Hydropower Limited, Global Hydropower Associate Limited and Pan Himalaya Energy Limited under the same group in the past.

#### Moderate capital structure and debt service coverage indicators

The overall gearing ratio of SCPL stood moderate at 2x as on mid-July 2023, deteriorated from 0.84x as on mid-July 2022 with increase in long-term loans. The interest coverage ratio of SCPL is moderate at 1.84x in FY23 vis-à-vis is 2.30x in FY22. However, total debt to GCA has significantly increased from 1.43x in FY22 to 5.56x in FY23 due to increase in term loans of the company. TOL/ TNW of the company improved from 7.79x in FY22 to 5.55x in FY23 due to decrease in short term liabilities.

#### Adequate machinery and equipment

SCPL has equipment worth NPR 1,127 Mn which includes NPR 814 Mn worth of Plant and Machinery and NPR 247 Mn worth of Other Equipment and 60 Mn worth of Automobiles at the end of FY23. The

organization has a fleet of 4 Crushers, 5 Batch Plant, 2 Dozers, 18 Excavators, 3 Crushers, 56 Trippers, 29 Tractors, 54 Power Generation Units and other equipment's. As some of the ongoing projects of the company already being completed, machineries mobilized for such projects are expected to be utilized for the under construction projects and also the remaining machineries are leased by the company.

## **Low counter party risk with escalation clauses in major contracts**

The company undertakes road construction works, hydro-mechanical works and penstock works of its own sister organization's hydropower projects. Accordingly, the counter party risk remains low given the contracts are obtained from the group companies where the debt and equity portion is already tied up which has been making timely payment in the past. Furthermore, price adjustment clauses included in the majority of the contacts protects the company against adverse changes in the price of construction materials which is crucial, especially considering the current global inflationary trend. Nevertheless, the coverage provided by the escalation clauses is limited to certain materials only, thus the company still retains a portion of the raw material price volatility risk.

## **Key Rating Weaknesses**

### **Deteriorating financial performance in FY22 & FY23 with modest order book position**

During FY23, SCPL had total operating income of NPR 2,558 Mn, declined from NPR 3,361 Mn in FY22 and NPR 4679 Mn in FY21 mainly due to completion of three contracts from its sister concerns namely Numbur Himalaya Hydropower Limited, Global Hydropower Associate Limited and Pan Himalaya Energy Limited. EBITDA margin remain moderate at 15.49% in FY23 up by 130 basis points from FY22. However, Pat margin declined and company reported net loss in FY23 on account of lower EBITDA coupled with higher interest expenses. Similarly, Gross Cash Accruals (GCA) faces gradual decrement to NPR 178 Mn in FY23 from NPR 237 Mn in FY22 and NPR 393 Mn in FY21 due to lower operating income and deteriorating PAT figures. As on February end 2024, the unexecuted orders in hand of the company stood at ~NPR 1,694 Mn which is less than operating income of FY23. However, hydropower works amounting to NPR 15,000 Mn from its sister concern namely Nasa Hydropower Limited is in final stages of agreement which is likely to improve its order book position and will remain a key monitorable

### **Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature marked by elongated debtor collection period which increased from 100 days in FY22 to 130 days in FY23. Since the funds are moved between the group companies on case-to-case basis coupled with the fact that it's debtors faced liquidity problems due to delay in loan disbursements meant that average collection period of the company remained high. Furthermore, SCPL's inventory holding period remains high at 100 days in FY23 (106 days in FY22) majorly due to piling up of construction materials as the company has to maintain inventory at various sites for smooth execution of project works. This has also been reflected by the fact that fund based working capital requirement for the company remains on the higher side, which resulted in average utilization of around 97% of its sanctioned working capital borrowings during the twelve-month period ended mid-January 2024.

### **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 SCPL to the risk of interest rate volatility. Further, the organization 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 -2 year for majority of projects.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

[Corporate Credit Rating Methodology](#)

### **About the Company:**

Tanka Prasad Marg, Baneshwor Height, Kathmandu, Nepal  
+977-1-4583304, 4585906; info@infomericsnepal.com; www.infomericsnepal.com

Sumo Construction and Engineering Private Limited (SCPL) is one of construction companies of Nepal mainly into the development of hydropower projects. The company was registered with Office of Company Registrar on June 7 2009 as one-man private limited company. The company is promoted by a single director, Mr. Vivek Dugar holding entire shareholding of the company.

## Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	4,679	3,361	2,558
EBITDA Margin (%)	12.68	14.19	15.49
Interest Coverage Ratio (x)	3.94	2.30	1.84
Current Ratio (x)	0.92	0.92	1.22
Overall Gearing Ratio (x)	1.39	0.84	2.00
Total Debt/GCA (Years)	1.75	1.95	5.60
DSCR (x)	3.59	2.22	1.89

\*Classification as per Infomerics Nepal standards

## Annexure 1: Details of Facilities

Instrument/Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term Bank Facilities- Term Loan/Auto Loan	Long-Term	1,222.34	IRN BB-
Short Term Bank Facilities- Overdraft Loan	Short-Term	104.00	IRN A4
Short Term Bank Facilities- Overdraft Loan(Proposed)	Short-Term	26.26	IRN A4
Long Term/ Short Term – Bank Guarantee/Letter of Credit	Long-Term/Short- Term	647.40	IRN BB-/A4
<b>Total</b>		<b>2,000.00</b>	

## Analyst Contacts

### Mr. Girish Bhatta

+977-1-4583304/4585906

[girish.bhatta@infomericsnepal.com](mailto:girish.bhatta@infomericsnepal.com)

### Mr. Raunak Mulmi

+977-1-4583304/4585906

[raunak.mulmi@infomericsnepal.com](mailto:raunak.mulmi@infomericsnepal.com)

## Relationship Contact

### Mr. Rabin Pudasaini

+977-1-4583304/4585906

[rabin.pudasaini@infomericsnepal.com](mailto:rabin.pudasaini@infomericsnepal.com)

## About Infomerics Credit Rating Nepal Limited:

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## Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906



# Infomerics Credit Rating Nepal Limited

Email: [info@infomericsnepal.com](mailto:info@infomericsnepal.com)

Web: [www.infomericsnepal.com](http://www.infomericsnepal.com)

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