

PRESS RELEASE

Y.S.S. NIRMAN SEWA PRIVATE LIMITED

June 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	21.99 (Enhanced from 6.17)	IRN B+	Reaffirmed
Short Term Bank Facilities-Fund Based	35.00	IRN A4	Reaffirmed
Long Term/Short Term Bank Facilities-Non Fund Based	519.46 (Reduced from 788.83)	IRN B+/ A4	Reaffirmed
TOTAL	576.45		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN B+ (Single B Plus) assigned to the long-term bank facilities of NPR 21.99 Mn, rating of IRN A4 (A Four) assigned to the short-term fund based bank facilities of NPR 35.00 Mn and IRN B+/A4 (Single B Plus / A Four) assigned to long term/ short term non fund based bank facilities of NPR 519.46 Mn.

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Y.S.S. Nirman Sewa Private Limited (YSS) continue to derive strength from its experienced promoters and management team in construction fields with long track record of operations along with escalation clause in major contracts and improving revenue profile of the company with moderate capital structure. These rating strengths, however, are constrained by low and concentrated order book position of YSS, existence in a competitive industry with exposure to changes in government regulations. Furthermore, the ratings also note YSS's exposure to project execution risks, interest rate volatility risk and defect liability risks. Going forward, the ability of the company to increase its order book position, successfully execute current projects in hand while managing revenue growth, maintaining profit margins and improving net worth base will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and long track record of operations

YSS holds "A" class certificate in construction business and has a long track record of experience since 1977. YSS is led by Chairman Yam Bahadur BC, who has more than two decades of experience in construction sector. Furthermore, the board is aptly supported by experienced personnel across various functions.

Improving financial risk profile with moderate capital structure

YSS's total operating income increased at a CAGR of 57.19% during last five fiscal years (FY19 to FY 23). The total operating income improved by 74.11% year-on-year in FY23 to NPR 284 Mn with execution of projects in hand. However, the EBITDA margin of the company decreased to 7.16% in FY23 from 11.22% in FY22 due to higher margin charged by sub-contractors. PAT margin of YSS improved to 2.81% in FY23 from 1.71% in FY22 mainly due to lower interest expenses during FY23. Gross Cash Accruals also increased to NPR 12 Mn in FY23 from NPR 8 Mn in FY22. The overall gearing ratio of YSS improved to 0.72x in FY23 from 1.09x in FY22 with scheduled repayment of loans. Interest coverage ratio also improved to 3.41x in FY23 from 2.04x in FY22. Furthermore, DSCR increased to 2.96x in FY23 from 1.89x in FY22.

Moderate counter party risk with escalation clause in major contracts

YSS's generates majority of its revenue from contracts with government departments for construction work related to roads, bridges along with other works. YSS's counter party risk remains moderate given the projects are from government departments and agencies, which have been making timely payments to the company in the past. Further, escalation clauses are included in the majority contracts of YSS, which protect it against any adverse changes in prices of key construction materials. Nevertheless, the coverage provided by the escalation clauses is capped, thus YSS still retains a portion of the raw material price volatility risk. From credit rating perspective, the company's ability to pass on rising price burdens to customers (employers) promptly while maintaining profit margin remains critical.

Key Rating Weaknesses

Low and concentrated order book position

As on mid-May 2024 the unexecuted orders in hand of YSS stood at NPR 166 Mn (including YSS's share in JVs). YSS's order book remain low as on mid-May 2024 with an unexecuted order in hand below the total operating income of FY23. The order book of the company is concentrated towards bridge projects which accounts for ~66.69% of the outstanding order book position. The order book reflects short term revenue visibility as the projects are in scheduled to be completed within the next one year. YSS's ability to obtain new projects will remain key monitorable.

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, YSS's ability to obtain new projects while maintaining profit margins remains crucial. YSS'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 YSS to the risk of interest rate volatility. Further, YSS 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 13 months for its projects.

Analytical Approach: Consolidated

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

Past Rating Rationale:

[Y.S.S. Nirman Sewa Private Limited: Bank Facilities Rating Assigned](#)

About the Company:

Y.S.S. Nirman Sewa Private Limited (YSS) is a Class "A" construction company of Nepal which was incorporated on October 30, 1977. The registered office of the company is located at Birendranagar-06, Surkhet. The company is led by Mr. Yam Bahadur B.C. holding 52.50% shareholding of the company. The paid-up capital of the company as on Mid-July 2023 was NPR 15 Mn and the tangible networth of the company stood at NPR 30 Mn at the end of the FY23.

Financial Indicators (Consolidated)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	297	163	284
EBITDA Margin (%)	6.98	11.22	7.16
Interest Coverage Ratio (x)	9.95	2.04	3.41
Total Debt/ EBITDA (x)	0.56	1.71	1.50
Current Ratio (x)	1.27	1.20	1.86
Overall Gearing Ratio (x)	0.42	1.09	0.72

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Long Term-Fund Based Bank Facilities	Long Term	21.99	IRN B+
Short Term-Fund Based Bank Facilities	Short Term	35.00	IRN B+
Non-Fund Based Bank Facilities- Long Term/ Short Term	Long Term/ Short Term	519.46	IRN B+/A4
Total Facilities		576.45	

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About Infomerics Credit Rating Nepal Limited:

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