

PRESS RELEASE

D.S. CONSTRUCTION COMPANY PRIVATE LIMITED

July 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	155.90 (reduced from 175.85)	IRN BB-	Reaffirmed
Short Term Bank Facilities	180.00 (reduced from 230.00)	IRN A4	Reaffirmed
Long Term/Short Term Bank Facilities	1,664.10 (reduced from 2,094.15)	IRN BB-/ A4	Reaffirmed
TOTAL	2,000.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed rating of IRN BB- (Double B Minus) assigned to the long term bank facilities of NPR 155.90 Mn, rating of IRN A4 (A Four) assigned to the short term bank facilities of NPR 180.00 Mn and IRN BB- (Double B Minus) /A4 (A Four) assigned to the long term/short term bank facilities of NPR 1,664.10 Mn.

Detailed Rationale

The reaffirmation of ratings assigned to bank facilities of D.S. Construction Company Private Limited (DSCPL) continues to derive strength from its experienced promoters and management team in the field of construction along with long track record of operations. The ratings also factor in moderate financial performance and moderate capital structure and debt service coverage indicators, escalation clauses in the majority of the contracts and moderate counter-party risk.

These rating strengths, however, are constrained by DSCPL's modest order book position and existence in a competitive civil construction space. Furthermore, the ratings also factor the DSCPL's susceptibility to interest rate volatility, regulatory risk, exposure to project execution risks and relatively small scale of operations. Going forward, the ability of the company to increase its order book position, successfully execute current projects in hand and timely realization of the contract proceeds while scaling up operations will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team with long track record of operations

DSCPL is managed under the overall guidance of three-member board of directors led by Mr. Dhurba Karki, Managing Director, who has more than four decades of experience in the field of construction business. DSCPL holds "A" class certificate in construction business and has long track record of operations since 1984. Furthermore, the board is supported by qualified professionals across various functions.

Moderate counter party risk with escalation clauses in the majority of contracts

DSCPL's revenue is fully generated via contracts from government departments for work related to roads, bridges and river training. Counter party risk remains moderate given the projects are from government departments, which have been making timely payment to the company in the past. Furthermore, price adjustment clauses included in majority of the contracts protects DSCPL against adverse changes in price of construction materials. The company's ability to pass on the escalated cost burdens to customers in a timely manner while maintaining profit margin remains critical.

Moderate Financial Risk Profile

The financial profile of DSCPL is characterized by improving total operating income (TOI) with CAGR of ~36% in last 3 FYs (FY21-FY23). The TOI amounted to ~NPR 581 Mn in FY23 vis-à-vis ~NPR 355 Mn in FY22 however, the EBITDA margins of DSCPL decreased to 11.70% in FY23 from 15.88% in FY22 due to increase in cost of contract operations. Moreover, the improvement in DSCPL's tangible net worth along with scheduled repayment of debt has led to improved overall gearing ratio of 1.58x at the end of FY23 vis-à-vis 1.67x at the end of FY22. The interest coverage ratio of DSCPL stood moderate at 1.57x in FY23, albeit declined from 1.79x in FY22 mainly due to increase in interest expenses with increase in bank borrowings. The scale of DSCPL has been improving over the years and the company's ability to maintain growth in revenue while improving profitability margins, coverage & capitalization indicator remains a key monitorable.

Key Rating Weaknesses

Moderate and concentrated order book position

As of mid-July 2024, the unexecuted orders in hand of the company stood at ~NPR 985 Mn (including DSCPL's share in JVs). DSCPL's order book position remains moderate as of mid-July 2024, with an unexecuted order in hand of ~1.69 times the operating income in FY23. Additionally, the order book is primarily centered around two orders, together comprising more than 75% of the outstanding orders, thereby linking the company's financial and operational performance with execution of those projects. Furthermore, the order book reflects mid-term revenue visibility as majority of the projects are in scheduled to be completed within the next one to three years. The ability of the company to increase its order book and execute project in hands on timely manner 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, DSCPL's ability to obtain new projects while maintaining profit margins remains crucial. DSCPL'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 DSCPL to the risk of interest rate volatility. Furthermore, DSCPL 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: Consolidated

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

Past Rating Rationale:

[D.S. Construction Company Private Limited: Bank Facilities Rating Assigned](#)

About the Company:

D.S. Construction Company Private Limited (DSCPL) is a Class "A" construction company of Nepal incorporated on August 31, 1984. The registered office of the company is located at Hetauda-11, Makawanpur. In addition to working on projects individually, DSCPL also forms joint ventures (JVs)

in order to meet the requirements for participating in various construction projects.

Financial Indicators (Consolidated)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	316	355	581
EBITDA Margin (%)	17.33	15.88	11.70
Interest Coverage Ratio (x)	1.88	1.79	1.57
Total Debt/EBITDA (x)	2.26	2.09	2.44
Current Ratio (x)	1.14	1.12	1.55
Overall Gearing Ratio (x)	1.95	1.67	1.58

*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	155.90	IRN BB-
Fund Based Bank Facilities-Working Capital (WCL)	Short Term	180.00	IRN A4
Non Fund Based Bank Facilities-LC/BG ¹	Long Term/ Short Term	1,611.26	IRN BB-/A4
Non Fund Based Bank Facilities-LC/BG (Proposed)	Long Term/ Short Term	52.84	IRN BB-/A4
Total Facilities		2,000.00	

¹Letter of Credit/Bank Guarantee

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About Infomerics Credit Rating Nepal Limited:

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