

PRESS RELEASE

HANUMAN CONSTRUCTION PRIVATE LIMITED

August 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Long Term/Short Term Bank Facilities	5,225.30 (enhanced from 4,680.00)	IRN BB-/A4	Downgraded from IRN BB/A4
TOTAL	5,225.30		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has downgraded the rating to IRN BB-/A4 (Double B Minus/A Four) from IRN BB/A4 (Double B/A Four) assigned to the long term/short term bank facilities of NPR 5,225.30 Mn.

Detailed Rationale

The downgrade of rating assigned to the bank facilities of Hanuman Construction Private Limited (HCPL) is primarily due to deterioration in its financial profile during FY23 marked by decline in TOI. Further, the rating also factors in HCPL's existence in a competitive industry with its exposure towards government regulations and project execution risks, interest rate volatility risk and defect liability risks.

These rating weaknesses are however partially offset by the strength derived from its experienced promoters and management team in construction fields with long track record of operations along with escalation clauses in the major contracts, moderate counter-party risk. The rating also takes into account the moderate capital structure and adequate order book position of the company albeit remained concentrated. Going forward, the ability of the company to successfully execute current projects in hand and improve its scale of operations through active participation in tenders while improving its overall financial profile will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter and long track record of operations

HCPL is led by Mr. Salik Ram Neupane, Chairman, who has been involved with the company since its inception and has more than three decade of experience in the field of construction business. Moreover, the other directors of HCPL also have adequate experience and expertise in the construction sector. Additionally, the board is aptly supported by an experienced team across various departments. HCPL holds "A" class certificate in construction business and has long track record of operations since 1994.

Moderate capital structure

HCPL has not availed any fund based borrowings from BFIs as the construction activities are mainly financed through the mobilization advances and interim payments received from the employers. HCPL's low reliance on external finance has resulted in a low overall gearing (including mobilization advance) of 1.46x at end of FY23 however increased from 0.28x at end of FY22 due to increase in mobilization advance. Additionally, the total debt to GCA ratio increased from 0.82x in FY22 to 3.19x in FY23.

Adequate albeit concentrated order book position

As of August 08, 2024, the unexecuted orders in hand of the company stood at NPR 5,006 Mn (including HCPL's share in JVs) which is 7.74x the total operating income of FY23. The order book is

heavily concentrated, with two projects comprising more than 85% of the outstanding orders. This heavy reliance ties the company's financial and operational performance closely to the successful execution of those projects. Furthermore, the order book reflects mid-term revenue visibility as the projects are scheduled to be completed within next one to three year. Furthermore, given the policy of limiting outstanding government contracts at a time, the timely execution of the order in hand is critical.

Key Rating Weaknesses

Deterioration in financial profile in FY23

The deterioration in financial profile of HCPL is marked by substantial decline in total operating income (TOI) to ~NPR 647 Mn in FY23 which was ~NPR 2,069 Mn in FY22, ~69% y-o-y decrease owing to lower execution of projects. Nevertheless, the EBITDA margins of the company increased to ~7% in FY23 from ~5% in FY22. HCPL's Profit after Tax (PAT) margin improved to ~4% in FY23 from ~2% in FY22, primarily attributed to reduced expenses related to bank commissions and income taxes. Likewise, TOL/TNW ratio deteriorated to 3.98x at the end of FY23 from 2.44x at the end of FY22 due to decline in tangible Networth base of the company to ~NPR 84 Mn in FY23 from ~NPR 175 Mn in FY22. Further, the gross cash accruals (GCA) of HCPL was ~NPR 39 Mn in FY23 vis-à-vis ~NPR 60 Mn in FY22. Going forward the ability of the company to stabilize the scale of operations while improving its overall financial profile remains 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, HCPL's ability to obtain new projects while maintaining profit margins remains crucial. HCPL'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 HCPL to the risk of interest rate volatility. Furthermore, HCPL 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](#)

Past Rating Rationale:

[Hanuman Construction Private Limited: Bank Facilities Rating Assigned](#)

About the Company:

Hanuman Construction Private Limited (HCPL), is a Class "A" contractor of Nepal established in 1994 as a firm and subsequently converted to a private limited company on August 9, 2022. The company's registered office is located in Bhaishapati, Lalitpur. HCPL is actively engaged in the construction of buildings and other infrastructure development projects across Nepal. In addition to undertaking

projects independently, HCPL also forms joint ventures (JVs) to fulfill the prerequisites for participating in various construction projects.

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (NPR Mn)	978	2,069	647
EBITDA Margin (%)	6.16	4.58	7.25
Total Debt/EBITDA (x)	4.51	0.41	2.14
Current Ratio (x)	2.03	1.37	1.45
Overall Gearing Ratio ¹ (x)	2.08	0.28	1.46
TOL/TNW (x)	4.34	2.44	3.98

*Classification as per Infomerics Nepal standards

¹including mobilization advance

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Non Fund Based Bank Facilities- Bank Guarantees	Long Term/ Short Term	5,225.30	IRN BB-/A4
Total Facilities		5,225.30	

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About Infomerics Credit Rating Nepal Limited:

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