

## PRESS RELEASE

### VEDANSHEE INFRASTRUCTURE PRIVATE LIMITED

August 2024

#### Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	28.32	IRN BB-	Assigned
Short Term Bank Facilities	286.68	IRN A4	Assigned
Long Term/Short Term Bank Facilities	3,185.00	IRN BB-/ A4	Assigned
<b>TOTAL</b>	<b>3,500.00</b>		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned rating of IRN BB- (Double B Minus) to the long term bank facilities of NPR 28.32 Mn, rating of IRN A4 (A Four) to the short term bank facilities of NPR 286.68 Mn and IRN BB- (Double B Minus) /A4 (A Four) to the long term/short term bank facilities of NPR 3,185.00 Mn.

#### Detailed Rationale

The ratings assigned to bank facilities of Vedanshee Infrastructure Private Limited (VIPL) derive strength from its experienced promoter and management team in the construction field with long track record of operations. The ratings also factor in the adequate order book position and moderate capital structure and debt service coverage indicators of the company.

These rating strengths are however constrained by fluctuating financial performance, and existence in a competitive construction industry. Furthermore, the ratings also note VIPL'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 promoter and long track record of operations

VIPL, established as a sister wing of Kalika Group, is led by Mr. Nicholas Pandey. Mr. Pandey has more than two decades of experience in the field of construction and is also one of the promoters of Kalika Group. The group is involved in the projects related to infrastructure development, construction and media segments. Furthermore, VIPL has diligently assembled a team of highly qualified professionals who effectively manage various functions. This strong support system, comprising experienced individuals across various functions of the organization has enabled VIPL to ensure the company's overall success. VIPL holds "A" class certificate in construction business and has long track record of operation of more than three decades in construction industry.

##### Adequate albeit concentrated order book position

As of July 28, 2024, the unexecuted orders in hand of the company stood at NPR 4,607 Mn (including VIPL's share in JVs) which is 4.58x the total operating income of FY23. The order book is heavily concentrated, with a single project comprising more than 60% of the total outstanding orders. This heavy reliance ties the company's financial and operational performance closely to the successful execution of this single project. Furthermore, the order book reflects mid-term revenue visibility as the projects are scheduled to be completed within next one to two year.

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

The overall gearing ratio of VIPL remains moderate at 0.26x at the end of FY23, slightly increased from 0.11x in FY22 due to increase in hire purchases loan and contract loan. The interest coverage ratio of VIPL is adequate at 3.71x in FY23, declined from 6.69x in FY22 due to increase in bank borrowings. DSCR of VIPL stood comfortable at 2.63x in FY23, albeit declined from 6.68x in FY22. Furthermore, TOL/TNW ratio increased to 7.10x in FY23 from 5.60x in FY22 due to increase in mobilization advance at the end of FY23.

## **Key Rating Weaknesses**

### **Fluctuating financial performance**

VIPL has experienced significant fluctuations in its Total Operating Income (TOI) over recent years, with a CAGR of ~12% during last six FYs (FY18 to FY23). The TOI increased from ~NPR 562 Mn in FY18 to ~NPR 840 Mn in FY20, but then fell sharply to ~NPR 355 Mn in FY21. It subsequently increased by ~55% to ~NPR 1,005 Mn in FY23, before dropping to ~60% to ~NPR 395 Mn in FY24. These fluctuations were largely influenced by the COVID-19 pandemic, liquidity issues, and reduced capital expenditure by the Government of Nepal. This variability also affected EBITDA, which surged by ~687% in FY20 compared to FY19, and fell to ~86% in FY21 before rising by ~123% in FY23. Despite these changes, the EBITDA margin averaged at around 3% over last three years (FY21-FY23) and profit after tax (PAT) margin remained modest at below 1% during those years. Such lower margins were mainly attributed to the execution of lower margin contracts during those years and increase in raw materials cost beyond the escalation clause of the contracts. However, VIPL showed improvement with the EBITDA margin rising to 13.97% and the PAT margin increasing to 3.54% in FY24. Similarly, Gross Cash Accruals (GCA) also saw a slight rise, reaching ~NPR 10 Mn in FY23 from ~NPR 13 Mn in FY22.

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

Vedanshee Infrastructure Private Limited (VIPL) is a Class "A" construction company of Nepal which was initially incorporated as a firm on September 12, 2002, and subsequently converted into a private limited company on September 10, 2006. The company obtained "A" class construction license on

October 21, 1993 from Ministry of Physical Infrastructure and Transport. The registered office of the company is located at Budhanilkantha, Kathmandu, Nepal and the company is promoted by single shareholder named Mr. Nicholas Pandey.

## Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24
	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	650	1,005	395
EBITDA Margin (%)	2.12	3.06	13.97
Interest Coverage Ratio (x)	6.69	3.71	2.47
Total Debt/EBITDA (x)	29.09	15.98	7.91
Current Ratio (x)	1.51	1.68	0.91
Overall Gearing Ratio (x)	0.11	0.26	1.45

\*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	28.32	IRN BB-
Fund Based Bank Facilities-Working Capital Loan	Short Term	250.00	IRN A4
Fund Based Bank Facilities-Working Capital Loan (Proposed)	Short Term	36.68	IRN A4
Non Fund based Bank Facilities- LC/BG <sup>1</sup>	Long Term/ Short Term	3,185.00	IRN BB-/A4
<b>Total Facilities</b>		<b>3,500.00</b>	

<sup>1</sup>Letter of credit/Bank Guarantee

## Analyst Contacts

### Mr. Saphal Maharjan

Tel No.+977-1-4583304/4585906

[saphal.maharjan@infomericsnepal.com](mailto:saphal.maharjan@infomericsnepal.com)

### Ms. Samigya Acharya

Tel No.+977-1-4583304/4585906

[samigya.acharya@infomericsnepal.com](mailto:samigya.acharya@infomericsnepal.com)

## Relationship Contact

### Mr. Rabin Pudasaini

Tel No.+977-1-4583304/4585906

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

## About Infomerics Credit Rating Nepal Limited:

Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities. For more information, visit <https://infomericsnepal.com/>



# Infomerics Credit Rating Nepal Limited

## **Infomerics Credit Rating Nepal Limited**

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

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

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

**Disclaimer:** Ratings assigned by Infomerics Nepal are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics Nepal reserves the right to change, suspend or withdraw the credit ratings at any point in time. Ratings assigned by Infomerics Nepal are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics Nepal is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.