

PRESS RELEASE

RASUWA CONSTRUCTION COMPANY PRIVATE LIMITED

October 2024

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	44.39 (reduced from 80.00)	IRN BB+	Downgraded from IRN BBB-
Short Term Bank Facilities	270.00 (reduced from 350.00)	IRN A4+	Downgraded from IRN A3
Long Term/Short Term Bank Facilities	9,580.30 (enhanced from 7,090.00)	IRN BB+/A4+	Downgraded from IRN BBB-/A3
TOTAL	9,894.69		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has downgraded the ratings assigned to the long term/ short term bank facilities of NPR 9,894.69 Mn to IRN BB+/A4+ (Double B Plus/A Four Plus) from IRN BBB-/ A3 (Triple B Minus/ A Three).

Detailed Rationale

The downgrade of ratings assigned to the bank facilities of Rasuwa Construction Company Private Limited (RCPL) is primarily due to sharp deterioration in its revenue profile along with elongation of average collection period and inventory holding. Furthermore, the ratings also factor in RCPL'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 ratings also take 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 while improving its overall financial profile will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters with long track record of operations

RCPL is led by Mr. Rajendra Raj Acharya, Chairman, who has been involved with the company since its inception in 1997 and has more than two decade of experience in the field of construction business. Mr. Mohan Acharya, Director, is a member of parliament since 2017 and has more than two decades of experience in the construction contracting business. Furthermore, the board is aptly supported by an experienced team across various departments. RCPL holds "A" class certificate in construction business and has long track record of operations since 1997.

Adequate order book position with mid-term revenue visibility

As of September 20, 2024, the unexecuted orders in hand of the company stood at ~NPR 9,262 Mn (including RCPL's share in JVs). RCPL's order book position remains adequate with an unexecuted order in hand of 5.85x the operating income in FY24. Furthermore, the order book reflects mid-term revenue visibility as the projects are scheduled for completion within the next three years.

However, it is important to note that ~10% of the total orders as of September 20,2024 are currently behind schedule and have surpassed their project deadlines. In case the company fails to secure an

extension for these projects, it could face penalties that may affect its financial profile. Therefore, the company's ability to secure extensions and ensure timely project completion will remain key monitorable.

Moderate capital structure and debt service coverage indicators

The capital structure of RCPL is moderate with an overall gearing ratio (excluding mobilization advance) of 0.93x at end of FY24 which was 0.78x at the end of FY23 and a total gearing ratio (including mobilization advance) of 1.39x at the end of FY24 which was 1.61x at the end of FY23. The slight increase in the gearing ratio is primarily attributed to term loans availed by the company to increase its fixed assets base. The interest coverage ratio stood moderate at 2.87x in FY24 and 2.60x in FY23. Likewise, DSCR also remained adequate at 2.78x in FY24. Furthermore, RCPL's Total Outside Liabilities to Tangible Net Worth remains adequate at 2.22x at the end of FY24 improved from 4.35x at the end of FY23 mainly due to improvement in its tangible net worth base. Similarly, the total debt to Gross Cash Accruals ratio of the company remains relatively higher at 6.16x in FY24 which improved from 9.96x in FY23.

Key Rating Weaknesses

Substantial decline in revenue during FY23 and FY24

The financial profile of RCPL has experienced a notable decline in total operating income (TOI) over recent years. Specifically, TOI fell from ~NPR 3,462 Mn in FY22 to ~NPR 2,382 Mn in FY23, and further decreased to ~NPR 1,583 Mn in FY24 (UA). This represents a significant decline in TOI, with a compound annual growth rate (CAGR) of negative ~18% over the past five FYs (FY20-FY24). The primary factor contributing to this decrease has been lower execution of the projects in hand owing to lower capital expenditure from the government. Despite the drop in TOI, RCPL has managed to improve its EBITDA margins, which improved to ~15% in FY24, up from ~7% in FY23. Consequently, the company's Profit After Tax (PAT) margin also saw an increase, improving to ~5% in FY24 from ~1% in FY23. Furthermore, the gross cash accruals (GCA) of RCPL improved to ~NPR 144 Mn in FY24 vis-à-vis ~NPR 91 Mn in FY23.

Project execution risk

RCPL's business model has some inherent risk and the projects are susceptible to delays in procedural approvals, site clearances and other issues exposing the company to the risk of delay in project execution leading to delays in realization of revenues. Additionally, RCPL's significant exposure to projects related to construction of roads, accounting for ~64% of its unexecuted orders, which are prone to delays due to design and other technical issues further aggravates the project execution risk. Furthermore, given the policy of limiting outstanding government contracts at a time, the timely execution of the order in hand is critical.

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

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

About the Company:

Rasuwa Construction Company Private Limited (RCPL) is classified as a Class "A" contractor and was incorporated on April 28,1997. The registered office of the company is located at Dhapasi, Kathmandu. RCPL is involved in construction of bridges, building, roads, hydropower projects etc. across Nepal. In addition to working on projects individually, RCPL also forms joint ventures (JVs) to meet the requirements for participating in various construction projects.

Financial Indicators (Consolidated)

For the year ended* As on	FY20	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	3,421	4,259	3,462	2,382	1,583
EBITDA Margin (%)	13.89	7.70	8.03	7.43	14.71
Interest Coverage Ratio (x)	23.67	18.29	9.39	2.60	2.87
Total Debt/EBITDA (x)	2.13	3.35	3.36	5.14	3.81
Current Ratio (x)	1.49	1.46	1.38	1.15	1.40
Overall Gearing Ratio (x)	1.52	1.52	1.66	1.61	1.41

*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	44.39	IRN BB+
Fund Based Bank Facilities-Working Capital	Short Term	270.00	IRN A4+
Non Fund Based Bank Facilities- LC/BG ¹	Long Term/ Short Term	9,580.30	IRN BB+/A4+
Total Facilities		9,894.69	

¹Letter of Credit/Bank Guarantee

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Infomerics Credit Rating Nepal Limited

About Infomerics Credit Rating Nepal Limited:

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