

## PRESS RELEASE

### **SUMO CONSTRUCTION AND ENGINEERING PRIVATE LIMITED**

**August 2025**

#### **Ratings**

| <b>Instrument/Facilities</b>         | <b>Amount (NPR Mn)</b>            | <b>Rating</b> | <b>Rating Action</b> |
|--------------------------------------|-----------------------------------|---------------|----------------------|
| Long Term Bank Facilities            | 344.00<br>(Reduced from 1,222.34) | IRN BB-       | Reaffirmed           |
| Short Term Bank Facilities           | 356.00<br>(Enhanced from 130.26)  | IRN A4        | Reaffirmed           |
| Long Term/Short Term Bank Facilities | 300.00<br>(Reduced from 647.40)   | IRN BB-/A4    | Reaffirmed           |
| <b>Total</b>                         | <b>1,000.00</b>                   |               |                      |

*Details of facilities are in Annexure 1 below*

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has reaffirmed the rating of IRN BB- (Double B Minus) assigned to the long term bank facilities of NPR 344.00 Mn, the rating of IRN A4 (A Four) to the short term bank facilities of NPR 356.00 Mn and IRN BB- (Double B Minus) /A4 (A Four) to the long term/short term bank facilities of NPR 300.00 Mn.

#### **Detailed Rationale**

The reaffirmation of ratings assigned to the bank facilities of Sumo Construction and Engineering Private Limited (SCPL) take into account the its significant order book position, driven by the signing of civil contracts for the under-construction 160 MW Lapche Khola Hydropower Project, which has increased its order book to approximately NPR 8.8 billion as of May 2025, providing medium-term revenue visibility. The receipt of mobilization advances has enabled SCPL to substantially downsize its long-term and short-term debt, resulting in a strengthened capital structure, as demonstrated by an improved overall gearing ratio of 0.95x as of mid-May 2025 compared to 2.94x in FY24 and 3.17x in FY23. The ratings continue to derive strength from SCPL's association with strong promoter group (MV Dugar Group), experienced promoter and management team in construction fields with its established track record of operations as evidenced by successful completion and operation of three separate hydropower projects aggregating to ~114 MW. The ratings also continue to factor in escalation clauses in the major raw materials, low counter-party risk and moderate coverage indicators.

These rating strengths, however, continues to remain constrained by moderation in its operating income with Total Operating Income (TOI) further contracting by ~39% in FY24 and ~67% in 10MFY25 primarily due to completion of its existing contracts and delay in execution of newly awarded contracts. Also, the company was able to book only NPR 522 Mn during 10MFY25, which is ~33% of the TOI of FY24. Although the EBITDA margin improved during FY24 and 10MFY25 due to utilization of previously procured low-cost inventory, the sharp decline in TOI led to significant pressure on profitability, resulting in a net loss during 10MFY25 and a marginal profit of approximately NPR 14 Mn, driven by huge operating costs. Additionally, the ratings also remain constrained by the working capital-intensive nature of SCPL's operations evidenced by elongated operating cycle (~161 days in FY24 vis-à-vis ~168 days in FY23), primarily due to prolonged inventory holding period of around 168 days in FY24 compared to ~100 days in FY23, stemming from stock accumulation in the absence of active contracts. Furthermore, the ratings also note SCPL's exposure to project execution risk, interest rate volatility risk and defect liability risk. The rating also considers SCPL's projects being highly concentrated towards projects of its own sister concerns. Going forward, the ability of the company to improve its scale of operations, properly execute its contracts with timely realization while maintaining its profitability margins will be key rating sensitivities.

## Detailed Description of Key Rating Drivers

### Key Rating Strengths

#### Improving profitability margins coupled with improving gearing profile

Post the utilization of mobilization advance for downsizing its loan, SCPL's witnessed improvement overall gearing ratio improved to 0.95x as of 10MFY25 date from 2.94x in FY24 and 3.17x in FY23. Also, the interest coverage ratio increased to 2.65x in FY25 from 2.32x in FY24 and 1.84x in FY23, while the debt service coverage ratio (DSCR) rose to 1.58x in 10MFY25 from 0.98x in FY24 and 0.84x in FY23. Additionally, the Total Debt to Gross Cash Accruals (GCA) ratio improved significantly, declining from 8.88x in FY23 to 5.44x in FY24 and further to 2.89x in 10MFY25. However, due to subdued profitability, the Total Outside Liability to Tangible Net Worth (TOL/TNW) has remained constrained at 4.65x in FY24 vis-à-vis 5.55x in FY23 primarily due to increased mobilization advance.

#### Adequate order book position with mid-term revenue visibility

SCPL's order book position remains adequate, providing mid-term revenue visibility. As of mid-May 2025, the company had unexecuted orders worth approximately NPR 8,846 Mn, representing a 5.6x its total operating income for FY24, thereby offering strong revenue coverage over the medium term. A majority of the projects in the order book are scheduled for completion within the next one year, while the civil works contract for the 160 MW Lapche Khola Hydropower Project is expected to be executed over the next 2–3 years, ensuring sustained operational momentum and cash flow visibility.

#### Strong promoter group with established track record of operations

The company is a part of MV Dugar Group, owned by Mr. Vivek Dugar who has wide experience of over 3 decades in various sectors. MV Dugar Group is diversified towards various sectors mainly hydropower, automobiles, banking and insurance sector. Mr. Dugar is supported by experienced management team. SCPL has completed 3 hydropower projects namely Numbur Himalaya Hydropower Limited, Global Hydropower Associate Limited and Pan Himalaya Energy Limited under the same group in the past.

#### Adequate Machinery and Equipment

SCPL continues to maintain a comprehensive fleet of construction equipment, enabling the smooth execution of projects and reducing reliance on external hiring or significant capital expenditure. As of mid-July 2024, the company held equipment valued at ~NPR 897 Mn, comprising ~NPR 668.6 Mn in plant and machinery, ~NPR 209.7 Mn in other equipment, and ~NPR 16 Mn in automobiles. The fleet includes 45 tippers, 16 excavators, 22 concrete mixers, 25 loaders, and 20 campers, among others. The availability of such a diverse and substantial inventory of machinery positions SCPL well to undertake large-scale projects efficiently while minimizing additional capital investment requirements and is a rating positive.

### Key Rating Weaknesses

#### Declining total operating income

SCPL's financial performance continues to remain under pressure, primarily due to the completion of three major contracts and delays in the commencement of new projects, which significantly constrained revenue growth in FY24. The company reported TOI of NPR 1,572 Mn in FY24, reflecting a decline of ~39% compared to FY23. However, the EBITDA margin improved notably to ~27% in FY24 from ~15% in the previous year, supported by the utilization of lower-cost inventory to complete ongoing projects. This improvement in operating margin enabled SCPL to return to profitability, recording a profit after tax (PAT) of NPR 14 Mn in FY24, a reversal from a net loss of NPR 56 Mn in FY23. Nevertheless, the financial performance remained subdued in 10MFY25, with the company generating a modest TOI of NPR 522 Mn, primarily due to the completion of existing contracts and continued delays in the execution of new projects. Despite further improvement in

EBITDA margin to ~39% during this period, the high fixed cost base led to a net loss of approximately NPR 26 Mn. The ability of management to enhance its total operating income and improve its profitability will remain key rating sensitivity.

## Working Capital intensive nature of business

The operations of the company are working capital intensive in nature marked by elongated operated cycle of 161 days in FY24 vis-à-vis 100 days in FY23. Despite reduction in average collection period due to ease in liquidity pressure among the debtors and completion of projects, (66 days in FY24 vis-à-vis 130 days in FY23), the SCPL's inventory holding period remains high at 168 days in FY24 (100 days in FY23) majorly due to piling up of construction materials as the company has to maintain inventory at various sites for smooth execution of project works and lack of proper utilization of inventory due to lack of active contract in FY24.

## 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 SCPL to the risk of interest rate volatility. Further, the organization 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 1 -2 year for majority of projects.

**Analytical Approach:** Standalone

## Applicable Criteria:

[Corporate Credit Rating Methodology](#)

## Link to past rating rationale:

[Sumo Construction and Engineering Private Limited: Bank Facilities Ratings Assigned](#)

## About the Company:

Sumo Construction and Engineering Private Limited (SCPL) is a construction company in Nepal mainly into the development of hydropower projects. The company was registered with Office of Company Registrar on June 7 2009 as one-man private limited company. The company is promoted by a single director, Mr. Vivek Dugar holding entire shareholding of the company.

## Financial Indicators (Standalone)

| For the year ended* As on       | FY22    | FY23    | FY24    | 10MFY25   |
|---------------------------------|---------|---------|---------|-----------|
|                                 | Audited | Audited | Audited | Unaudited |
| Total Operating Income (NPR Mn) | 3,361   | 2,558   | 1,574   | 522       |
| EBITDA Margin (%)               | 14.19   | 15.49   | 27.15   | 39.08     |
| Interest Coverage Ratio (x)     | 2.30    | 1.84    | 2.32    | 2.65      |
| Current Ratio (x)               | 0.92    | 1.22    | 1.25    | 0.96      |
| Overall Gearing Ratio (x)       | 3.35    | 3.17    | 2.94    | 0.95      |
| TOL/TNW (x)                     | 7.79    | 5.55    | 4.65    | 4.63      |
| DSCR (x)                        | 0.99    | 0.84    | 0.98    | 1.58      |

\* Classification as per Infomerics Nepal Standards

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

## Annexure 1: Details of Facilities

| Instrument/Facilities                    | Type of Facilities | Amount (NPR Mn) | Rating  |
|--|--------------------|-----------------|---------|
| Long Term Bank Facilities- PWC Term Loan | Long-Term          | 344.00          | IRN BB- |

| Instrument/Facilities  | Type of Facilities       | Amount (NPR Mn) | Rating     |
|--|--------------------------|-----------------|------------|
| Short Term Bank Facilities-<br>Overdraft Loan                            | Short-Term               | 120.00          | IRN A4     |
| Short Term Bank Facilities-<br>Cash Credit/Short Term Loan<br>(Proposed) | Short-Term               | 236.00          | IRN A4     |
| Long Term/ Short Term – Letter<br>of Credit                              | Long-Term/Short-<br>Term | 300.00          | IRN BB-/A4 |
| <b>Total</b>   |                          | <b>1,000.00</b> |            |

## Analyst Contacts

### Mr. Girish Bhatta

+977-1-4583304/4585906

[girish.bhatta@infomericsnepal.com](mailto:girish.bhatta@infomericsnepal.com)

### Mr. Raunak Mulmi

+977-1-4583304/4585906

[raunak.mulmi@infomericsnepal.com](mailto:raunak.mulmi@infomericsnepal.com)

## Relationship Contact

### Mr. Rabin Pudasaini

+977-1-4583304/4585906

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

## About Infomerics Credit Rating Nepal Limited:

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## 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)

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