

Cosmic Electrical Limited¹: Ratings reaffirmed

November 06, 2023

Summary of rating action:

Instrument (Amounts NPR million)	Previous Rated Amount	Current Rated Amount	Rating action
Long-term, fund-based loan limits	12.6	74.7	[ICRANP] LBB-; reaffirmed
Short-term, fund-based loan limits	100.0	87.0	
Short-term, non-fund-based loan limits	600.0	838.3	
Short-term, within non-fund-based loan limits	(500.0)	-	
Total	712.6	1,000	

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L Double B minus) to the long-term loan limits of Cosmic Electrical Limited (CEL), and also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loan limits.

Rationale

The ratings reaffirmation takes comfort from CEL's adequate operational track record (>two decades) in power transmission and distribution sector projects in Nepal and its experienced promoter. The ratings also consider the company's satisfactory order book position, which along with increasing hydropower projects in the country, provides near to medium-term revenue visibility. Additionally, the company's liquidity profile remains aided by sizeable mobilization advances leading to controlled working capital intensity (net working capital to operating income ratio) of ~3% for FY2023.

Nonetheless, the ratings are mainly constrained by the company's muted revenue growth of ~3% in last two fiscal years, despite adequate order position and a relatively small scale of its operations. CEL continues to have a modest financial profile, with total outsider liabilities to tangible net worth (TOL/TNW) ratio of 5.6 times as of mid-July 2023, despite some recent moderation. While the DSCR for FY2023 was satisfactory at ~2 times, this was primarily aided by the improved operating profit margins (OPM) during the year and hence the ability to sustain the same remains to be seen. The company is also has limited sectoral diversification with its pending projects entirely being from electrical transmission and distribution lines segment. This rating concern is further exacerbated by the project execution risks and the general delays in implementation of such projects, leading to recent muted revenue growth. Further, intense competition in the bidding process raises uncertainty regarding revenue sustainability, although this is partly mitigated by the company's experience in the field. Going forward, the company's ability to timely secure new/adequate projects and timely complete the undertaken contracts, while sustaining the OPM and coverage metrics improvement will remain the key rating sensitivities.

Key rating drivers

Credit strengths

Adequate operational track record; experienced promoter – CEL has been operating since 2000 AD, with shift in focus towards the electrical transmission line and distribution segment projects in recent years. Over the years, the promoters have garnered adequate experience in the industry, which remains a positive.

¹ Previously Cosmic Electrical Engineering Associates Private Limited, when last rated.
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Comfortable order book position – The company has made satisfactory additions of new contracts recently, resulting in an adequate order book position with the pending value of contracts to be executed as of mid-September 2023, equivalent to ~3.2 times of CEL's FY2023 revenues. This, along with the increasing number of hydropower projects in the country provides reasonable assurance regarding near to medium-term revenue visibility.

Credit challenges

Muted revenue growth, despite small scale of operations – Over the past two fiscal years, CEL has reported muted revenue growth of ~3%, despite its relatively small scale of operations and its adequate pending order book position (2.5 times, when last rated based on FY2021 revenues). Generally slow pace of execution in transmission line constraints amid various legal/social issues, raises concerns regarding the company's ability to achieve scalability as its revenue base still remains on a much lower side compared to its track record.

Modest financial profile – CEL's financial profile continues to remain moderate with total debt to OPBDITA of ~2.7 times and a high TOL/TNW of 5.6 times as of mid-July 2023, despite recent improvements. The company's substantial dependence on mobilization advances results in a current ratio of ~0.9 times as of mid-July 2023. While the DSCR remained adequate at 2.0 times for FY2023, this was mainly aided by improvement in OPM during the year to ~8% (based on provisional financials) from ~5-6% in earlier years. Given the higher debt repayment obligations over near term, considering the recently added permanent working capital loans, the company's ability to sustain the margin improvement will remain crucial.

Sectoral concentration and project execution risk – The company has limited sectoral diversification in its pending projects, as it is primarily focusing only on electrical transmission and distribution line projects in recent years. Further, as of mid-September 2023, some pending projects are running behind their original completion schedule or are nearing their deadline without significant progress. This exposes CEL to project execution risks and any substantial/unexpected delays in the execution of such projects could expose the company to the risks arising from non-performance such as bank guarantee (BG) devolvement, blacklisting, liquidated damages, etc. This could erode its financial profile and competitive positioning/reputation.

Highly competitive intensity – Nepal's construction sector is highly competitive, given the presence of a large number of players. The company also plans to gradually bid for large-scale public projects where the competition already remains high. Moreover, the bidding requirement for the public projects creates uncertainty regarding the sustainability of future revenue inflow; albeit mitigated to some extent being an experienced player in the field.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodologies as indicated below.

Links to the applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

Link to the last rating rationale

[Rationale Cosmic Electrical Engineering Associates Private Limited Fresh BLR March 2022](#)

About the company

Incorporated on 2000 AD as a private limited company and converted to public limited status on November 17, 2022, Cosmic Electrical Limited (CEL) is a Class-A contractor, mainly engaged in transmission and distribution line segment. CEL is a closely held company wherein ~80% stake is held by its chairman Mr. Mahesh Mahato, followed by ~19% stake of his wife Ms. Nita Gami Mahato, among others.

Key Financial Indicators

	Audited				Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023
Operating Income-OI (Sales; NPR million)	207	301	378	345	403
OPBDITA/OI (%)	7%	6%	5%	5%	8%
Total Debt/ Tangible Net Worth (TNW; times)	4.5	2.8	2.5	3.0	1.9
Total Outside Liabilities/TNW (times)	18.9	9.5	7.4	9.4	5.6
Total Debt/OPBDITA (times)	4.1	4.2	3.9	4.9	2.7
OPBDITA/Interest (Interest coverage; times)	1.5	1.7	2.6	2.0	2.1
DSCR (times)	1.3	1.6	2.4	1.9	2.0
Net Working Capital/OI (%)	10%	14%	8%	-1%	3%
Current Ratio	1.0	1.0	0.9	0.7	0.9

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